Stock Market Game

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Table of Contents

I. Executive Summary....................1

II. Analysis of Portfolio Performance....................2

III. Rationale....................3

A. Explanation of research conducted prior to selection of stocks/funds....................3

B. Strategy used to diversify investment portfolio....................5

C. Description of how selected stocks and/or fund fit strategy....................7

IV. Conclusions and Findings....................8

A. Explanation of strategy effectiveness....................8

B. Proposed changes in strategy for future investments....................9

V. Charts/Diagrams of Portfolio Performance....................10

VI. Bibliography....................11

I. Executive Summary

Overview of Portfolio Performance

From early-September to mid-December, JW Investments' initial $100,000 quick growth portfolio went up in net value by $38,355.80, beating the S&P 500 by 33.22%. $40,000 was initially invested into longing various Stalwart stocks and $10,000 in a short position on Shell. The portfolio suffered a loss in October but recovered after gold ETFs rocketed in value. Securities purchased in early November revolved around anticipation towards quarterly earnings reports, including Apple, Alibaba, and Rogers. After the controversy in the pharmaceutical sector revolving around Martin Shkreli took place in November, we researched and decided to short sell Valeant and Kalobios in December.

Research Methods

Investment of the quick growth portfolio was based on two steps: company background information through fundamental analysis, and technical indicators. We followed the theory of buying into companies that we were familiar with so we could predict and understand past and present trends. We researched those companies and created a shortlist based on expected trends based on future company plans and technical indicators for the correct buying window. In addition, we performed a similar process for companies that would be impacted from major events.

Investment Objectives and Strategy

Our primary objectives for our quick growth portfolio were to achieve 15% growth over a three month period while minimizing risk and maintaining liquidity.

The strategy we employed to meet these objectives was to diversify our portfolio:

i) Internationally, to expose ourselves to a variety of markets with high growth potential.

ii) Across sectors, to minimize the risk of one sector crashing.

Strategy Success and Future Improvements

JW Investments' 38.36% return from the portfolio reflects the astounding success of our investments and strategies. Challenges were overcome through diversification and knowledgeability in our securities. Companies that were chosen through our investing theory of investing into familiar companies were our highest profiting, because they were companies that we had the background and basis to know the optimal time to buy and sell, and to be able to base those decisions on more than ticker trends. Areas that JW Investments plan on changing for the future include limiting investments in unknown and unpredictable territory, decreasing the number of day-trades, and a firmer stance on our portfolio securities.

II. Analysis of Portfolio Performance

In a span of 3.5 months, from September to December, JW Investments' quick growth portfolio increased in value by $38,500 on an initial $100,000. A return on investment 33.22% over the S&P 500. Our decisions were based on in-depth fundamental analysis, research into major events, earnings reports, jobs reports, and personal knowledge of favourable companies. Our investment ideology is further expanded upon in section III. Rationale.

We invested approximately $40,000 in long and $10,000 in short stock positions, in blue chip companies. All were companies we knew and bought based on known performance, economic factors, and events within the companies. By early November, quarterly earnings reports were to be released, and expectations towards those impacted a majority of our decisions. These positions produced an average return of 6% with minimal risk, given the size and strength of these companies. Our portfolio experienced only one major loss (RDSA) with all other positions breaking even or netting a profit. However, this loss was only 2% of our entire portfolio and is attributed to an unexpected rally in the price while oil prices were dropping and expansion plans were cancelled. The remaining $50,000 was placed into ETFs and other stock positions. We chose to take on a high volatility position in gold miner ETFs with confidence in positive returns. With China and U.S. in economic slowdowns and jobs reports barely meeting the already low expectations gold prices were being driven up. Gold proceeded to surge to a 3 month high leaving us with a net profit of $10,000. Exorbitantly high drug prices and the controversy they brought to the pharmaceutical industry lead to our eventual short position for Valeant and KaloBios, which both subsequently dropped heavily in value creating $24,000 in unrealized gains. Overall, our approach of fundamental analysis and research, while taking technical indicators into account paid off greatly. The quick growth portfolio exceeded its objective of generating a 15% return, and successfully minimized risk and maintained liquidity.

III. Rationale

A. Research Conducted Prior to Purchasing Stocks

The investment of our portfolio was primarily based on the background conducted (with fundamental and qualitative analysis) of the company, and secondarily based on technical aspects of the stock performance. Companies were shortlisted as candidates first through a fundamental analysis of companies that we were familiar with. After a company made the shortlist, we then narrowed down purchases using Yahoo Finance for technical indicators like the MACD and Moving Average.

Fundamental analysis on familiar companies was the key theme behind many of our stock choices. The primary benefit of this strategy is that it allowed us to see company performance outside of simply tickers and stocks, and gave us the knowledge to act based on company history and expectations. Additionally, this allowed for us to assess continued performance based on product/service, and judge the correct time to sell. Apple was one example of this. We first conducted a qualitative analysis by visiting several Apple stores to survey customer volume with our own eyes when the iPad Pro was released on November 11. Next, we read more into iPhone 6s reviews and only found positive ones. With a positive qualitative analysis, we began a detailed historical analysis. We noticed that earnings reports have consistently delivered expected high reports almost every year, and with the success of Apple's new products, this year should be no exception. We decided to buy shares based on high anticipation for the soon to be released quarterly earnings reports. We moved on to conduct a technical analysis to analyze market health. MACD indicated a divergence from the signal, pointing to an end to the bearish trends. Both SMA and EMA showed that the stock was undervalued. MFI indicated 48, meaning that the upward potential is reliable. Additionally, a