Stock Market Game

LXW Investments

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DECA Woodlands

3225 Erindale Station Rd

Mississauga, ON L5C 1Y5

The Woodlands School

Jacob Liu, Alfred Xue, Zhengyuan Wu
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Executive Summary

Overall Portfolio Performance

From an initial investment of $100,000, LXW Investments’ portfolio generated a net equity gain of $8,248.59, which represented an 18.5% return above the S&P 500 index (which declined around 10% during the session). This portfolio mainly consisted of stocks across four sectors: healthcare/biotech, technology, retail and cannabis. The success of this portfolio can be attributed to the focus on short-selling volatile stocks during a period of economic slowdown as well as a diverse investment in long stocks with strong fundamentals and good performance history.

Investment Objectives

Our investment objectives were based on taking calculated risks to generate high revenues. A goal of a 15% return above the S&P 500 index was set at the start of the trading session, which was exceeded. To achieve this objective, extensive market research was conducted to create a shortlist of securities, which was then further analyzed and narrowed down to determine the final investments. For potential long stocks, both a fundamental and technical analysis were conducted. For potential stocks to short sell, fundamentals were kept in mind while a more technical analysis was conducted on the stocks, their respective sectors, and the index, as well as monitoring economic factors that could influence investors’ confidence.

Trading and Diversification Strategy

One of the main contributors to our success was our trading strategy, which revolved around examining fundamentals and active trading, using comprehensive analysis to determine vulnerable and volatile stocks which could potentially be profitable through short selling. We narrowed our scope to stocks that experienced a large gain in a short period of time due to overbuying and analyzed if the growth would be sustainable based on its fundamentals and past performance. With the looming trade uncertainty between the US and China and company growth slowing, many of these stocks were unable to sustain this growth resulting in corrections in the following days, forming a technical trend called “the Evening Star candlestick pattern”, which was a typical downturn signal that we capitalized on, generating large profits. Not only did we implement an active trading strategy, but we also diversified our portfolio by investing in lower and higher risk stocks across various market sectors, including biotechnology, retail, information technology and cannabis. This diversification minimized the higher risk of our active trading strategy while balancing the portfolio and increasing its potential for profit.

Developments and Future Improvements

Due to the short trading period, calculated risks, such as active trading and investing in low-cap, high volatility stocks, needed to be taken to generate significant profits in a 3-month session. Although our investments also aimed at minimizing risks, it was expected that some of these investments might not perform as well as we expected. Improvements could be made towards a more stringent investment criteria, where investments would be liquidated after a certain percentage of loss (e.g. 5% loss) to mitigate risks. More investment diversification would further minimize the risk of LXW investment’s trading strategy.
Analysis of Portfolio Performance

Throughout the 3-month trading period, LXW Investments produced a profit of $8,248.59, totaling to $108,248.59 from an initial portfolio value of $100,000. A combination of stocks with a focus in the four sectors mentioned in the overview, mutual funds, and US treasury bonds helped our portfolio achieve our investment objectives and surpass the S&P 500 index by 18.5%.

With the growing uncertainty of the global markets in Q4 of 2018, LXW Investments took advantage of the volatile conditions and gained massive profits through frequent short selling. We found that a number of volatile stocks fell under three sectors: technology, cannabis, and healthcare/biotechnology, which we targeted with our active trading strategy. Due to the short trading period, the market situation at the time and the lack of opportunity to make significant profits from mutual funds and bonds, we minimized our investment to 5% of our total equity in each. The overwhelming majority of our equity was invested in stocks for higher potential returns.

Table 1. Significant Investments in Portfolio

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>Ticker Symbol</th>
<th>% Gains/Losses</th>
<th>Profit/Loss in $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (Short Sell)</td>
<td>GRNQ</td>
<td>26.52%</td>
<td>7,798.71</td>
</tr>
<tr>
<td>Stock</td>
<td>JNJ</td>
<td>-4.33%</td>
<td>-433.91</td>
</tr>
<tr>
<td>Stock (Short Sell)</td>
<td>YGYI</td>
<td>12.82%</td>
<td>3,664.12</td>
</tr>
<tr>
<td>Stock</td>
<td>FL</td>
<td>11.81%</td>
<td>1,189.69</td>
</tr>
<tr>
<td>Stock</td>
<td>GOOS</td>
<td>5.52%</td>
<td>1,099.37</td>
</tr>
<tr>
<td>Stock (Short Sell)</td>
<td>IGC</td>
<td>7.38%</td>
<td>1,807.47</td>
</tr>
</tbody>
</table>

From the table above, a significantly large profit came from short-selling GreenPro Capital Corporation (GRNQ), a financial consulting and corporate accounting company based in Asia with its headquarters in Hong Kong. With growing trade tensions between the US and China, markets were struggling, and most stocks were losing value. When GRNQ experienced a sudden gain of 170.49% and 15 times the average trading volume on October 1st, 2018, we locked it down on our radar. After looking at the fundamentals of this company, we determined that this stock was overvalued, and realized that a selloff would likely occur in the next few days. Unable to sustain the growth from the previous day, GRNQ plunged the following day, rewarding our short sell with massive profits. Short selling YGYI (Yougevity International Inc.) and IGC (India Globalization Capital Inc.) revolved around the same methodology of analyzing market conditions and the sustainability of the growth of the stocks. Yougevity International Inc. and India Globalization Capital Inc. both experienced higher than expected daily trading