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Short - term Investing

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SHORT – TERM INVESTING

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Introduction

There is money to be made in trading stock; quarter 4 of 2016 for example generated $267 billion in weighted-share earnings. But how difficult is it to turn a profit? The proper allocation of funds combined with the knowledge of where and when to invest can lead to substantial profit. My short-term investing project, focuses on the generation of profit via trading stock. My goals are too predict the movement and volatility of stock to generate 3% growth over a 3-month horizon. I used a four-part analysis technique in attempt to achieve this goal.

Source: Investopedia.com

Figure 1. The simulator used for this project, consisting of both a stock trader and a currency trader amongst other educational tools for beginner and intermediate investors, and using only fake/simulated money.

Methods

My four part analysis technique consisted of using the Current Ratio, a measure of a company's current liabilities versus current assets to determine their ability to meet short term financial obligations, Earnings Per Share (EPS), a measure of a company's profit allocated to outstanding shares of stock to determine their profitability, a recent or soon incoming innovation or product that a company may be launching which often accompanies a stock price jump if successful, and an average upward trend in stock price over the previous 2 quarters as the stock market is efficient and movement typically continues in one overall direction unless an issue arises.

Specifically, I would only purchase stock in a company if at least 3 of the following 4 measures were achieved:

- Current Ratio of 2:1
- EPS greater than 1
- At least one future innovation
- A general upwards trend in stock price over the last 2 quarters.

Furthermore, I attempt to take advantage of investments in the Energy Sector (companies working with oil, gas, electricity, or other energies) because energy prices usually drop in the winter and rise in the summer.

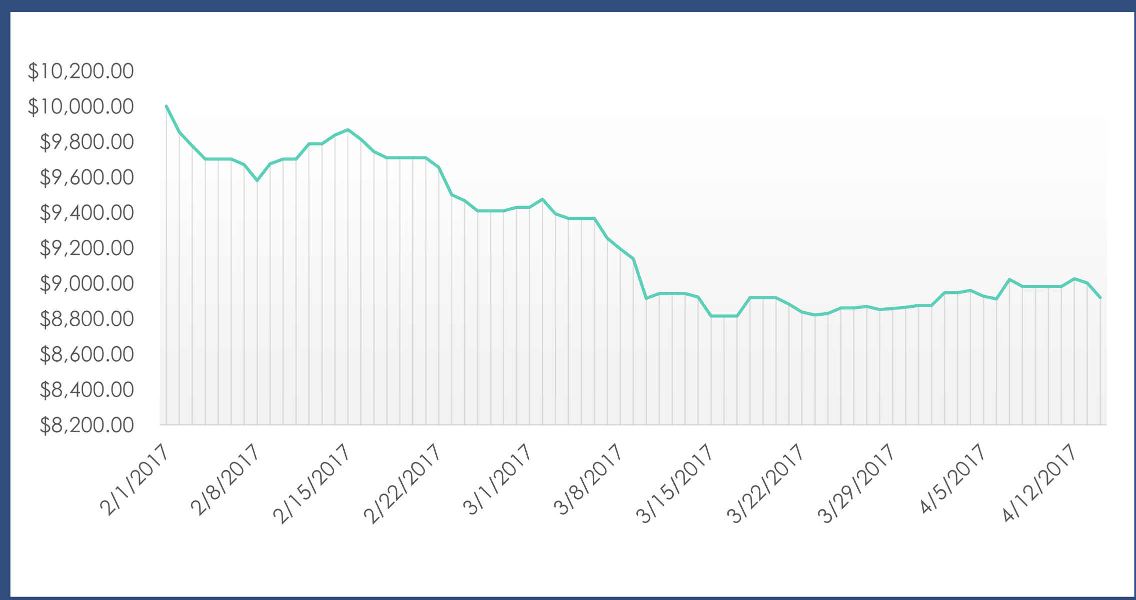
Results

My goal of 3% growth on an initial investment of $10,000 (my goal is to make $300) was not achieved; rather, my end result was a loss of 10%, or $1,000. Week 1 (2/1– 2/8) and Week 5 (3/8 – 3/15) are where I lost the most money accounting for 8% ($798.25) of my initial investment.

My investments in the Energy Sector in attempt to take advantage of low and increasing stock prices resulted in a loss of 5.25%. Specifically, I lost the most, at nearly 6%, with Freeport-McMoran Inc. (FCX) but was able to recover almost 1% of my total Energy Sector losses with a 2.3% gain with National Grid (NGG). Other loses in my traded Energy Sector stocks include Phillips 66 Partners LP (PSXP) with 1.7% and Powershares Wilderhill Clean Energy (PBW) with 0.02%.

I sought out diversification over the course of my project to mitigate potential and realized losses in the Energy Sector. At different points throughout my timeline, I invested in TD Ameritrade (AMTD), GW Pharmaceuticals (GWPH), International Gaming Technology (IGT), AMC Entertainment (AMC), and a Vanguard Long-term Government Bond Index (VGLT). The result of such diversification was a loss of over 2%. However, some of these stocks paid dividends based on how many shares were owned; these dividends can be seen in Table 2, Corporate Action History, and they made up a gain of 0.38%.

Portfolio performance history



Stock summary

TICKER	COMPANY	LAST TRADE	TODAY'S CHANGE	CHANGE SINCE ADDED	ADDED ON	VOLUME
AMTD	TD AMERITRADE HOLDING CORPORATION	$36.84	0.38 (1.02%)	10.02 (0.21%)	01/16/17	2,538,587
GWPH	GW PHARMACEUTICALS PLC SPONSORED ADR	$117.07	0.68 (0.58%)	2.84 (0.02%)	01/16/17	170,347
FCX	FREEPORT-MCMORAN, INC.	$12.72	0.16 (1.24%)	2.47 (0.16%)	01/16/17	14,922,720
IGT	INTERNATIONAL GAME TECHNOLOGY PLC	$21.84	1.33 (5.74%)	5.25 (0.19%)	01/16/17	2,271,621
PSXP	PHILLIPS 66 PARTNERS LP	$52.36	0.29 (0.55%)	1.30 (0.03%)	01/16/17	144,206
NGG	NATIONAL GRID PLC SPONSORED ADR	$64.71	0.40 (0.61%)	6.68 (0.12%)	02/01/17	433,501
PBW	POWERSHARES WILDERHILL CLEAN ENERGY PORTFOLIO	$4.01	0.05 (1.16%)	0.02 (0.01%)	02/23/17	47,993
AMC	AMC ENTERTAINMENT HOLDINGS, INC. CLASS A	$30.20	0.10 (0.33%)	0.90 (0.03%)	03/06/17	1,097,425
VGLT	VANGUARD LONG-TERM GOVERNMENT BOND INDEX FUND	$76.24	0.26 (0.34%)	1.31 (0.02%)	03/29/17	84,730

Table 1. Listed are the stocks I traded with their ticker (stock market name), the company's name, the overall growth of the stock since I began tracking them, the volume of shares being traded, and other trading information (above).

Corporate action history

DATE	TRADE TYPE	SYMBOL	QUANTITY	PRICE	TOTAL CASH VALUE	ACCOUNT VALUE
4/7/2017 4:43 AM	Dividend	VGLT	20	$0.16	$3.10	$9,021.76
4/6/2017 4:42 AM	Dividend	IGT	36	$0.20	$7.20	$8,910.95
3/31/2017 5:04 AM	Dividend	PBW	45	$0.01	$0.60	$8,874.77
3/27/2017 4:42 AM	Dividend	AMC	40	$0.20	$8.00	$8,869.14
2/1/2017 5:00 PM	Interest				$19.73	$10,019.73

Table 2. Listed is my Corporate Action History (above). It represents all dividends and interest paid to me by my traded companies because I owned shares of their stock. The dividends and interest I received were paid quarterly and represent .38% of my initial investment.

Figure 2. This graph represents my overall portfolio performance history and is inclusive of all profits and losses on all of my traded stock starting February 1st through April 15th (left). My total loss as indicated here is approximately 10%. Note: overall performance typically peaked at the occurrence of dividends as outlined in Table 2.

Discussion and conclusions

I did not reach my intended goal of 3% growth and this may be due to a variety of reasons. My investments in the Energy Sector yielded my largest losses. My goal was to take advantage of low and increasing energy prices following the winter. The result was that I missed the optimal opportunity to invest; energy prices were increasing, or peaking before declining, when I invested.

My investments to mitigate potential and realized losses during the project were in good attempt as every stock was analyzed using my 4 part technique. Nonetheless the result was dismal. The measures I used were not incorrect but simply not all-inclusive of the data I needed to make a precise judgement on movement and volatility. Hence, I invested in stocks with measured results that were overvalued or overemphasized.

One unforeseen issue with my project was the incorporation of commission fees in my simulator. In real life commission charges by a broker for trading stock on your behalf are normal, but Investopedia charged $30 per trade; this commission charge is fairly high and resulted in a total unforeseen loss of 3.6% across 12 trades.

Whereas the measures I used for this project still appropriately apply to measuring movement and volatility, I would create a more inclusive technique for measuring company stock before investing again. For example, had I involved P/E ratio, or the price the market is paying for $1 of earnings, along with EPS, I may have been able to better determine whether a stock was cheap or expensive.
Furthermore, I found that investing in dividend stocks and/or ETF's, or essentially baskets of diversified assets indicated by one 'stock', prove to aid diversification and limit risk.

Acknowledgements

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Sources

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