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Stock Market Simulation

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ABSTRACT

Using regular business resources, such as the internet, individuals, books and other publications, a four-week stock market simulation was conducted. Several investment strategies were selected and applied in the simulation to get better knowledge of the stock market. Experience learned from this project will be helpful in our future investments.

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1. INTRODUCTION

Our primary goal in this project is to make a profit by applying the knowledge gained throughout the simulation. While we would like to be as profitable as possible, we have an additional goal of also being as accurate as possible. Accuracy in calculations and analysis will determine the true worth of our primary goal, which we plan to achieve in an eight week total program, including four a week market simulation.

In the process, we plan on conducting thorough research so that we may conduct educated practices concerning our investment in the stock market. More specifically, we will research trading and investment methods and test them in a mock simulation. From the results of the simulation, and analysis of our methods, we will be able to formulate a conclusion as to the success of certain methods.

With a self-determined budget of \$50,000 per person, to be allocated among five companies of our choosing (ten companies total), we will begin trading immediately. Each week we will formulate a report on our results, with all of our trades, costs, profits, and other information being recorded in an orderly and organized fashion, so that we may maintain accuracy in our data.

As stated, our goals are to be profitable through the knowledge we acquired about the stock market, as well as to be accurate. We have constructed ourselves a good base for the project with the research conducted. We have also set up our report for good book keeping helping to verify our accurate results. With these two goals on track, we will undoubtedly conduct this report with success.

2. INVESTMENT OPTIONS

The purpose of this chapter is to explain several of the options that one can use to invest their money. The Options that are listed below are the most popular of the investment options available in today's market. The chapter below will cover mutual funds, certificates of deposit, bonds, money market, stock market, hedge funds, and treasury bills.

2.1 Mutual Funds

A mutual fund is the name for a fund that combines the money from many investors into one portfolio. The money that has been pooled together is then managed and invested in stocks, bonds, short-term money market instruments, and other securities. Sometimes they combine a few of the options, which are known as a portfolio. Each of the shares is a representation of the owner's investment, and is proportionate to the ownership of the funds. Mutual funds are one of three types of companies, known as open ended companies. The other two options that oppose mutual funds are closed-end funds, and unit investment trusts. Closed-end funds sell a fixed number share at a single time at an initial public offering and at a later trade in a secondary market. Unit investment trusts make an IPO of specific and a fixed number of redeemable securities. These securities are known as units, and these units will eventually be terminated on a specified date affiliated with the specific trusts²¹.

In a mutual fund the investors purchase the mutual fund shares directly from the fund itself. This is opposed to purchasing the shares from investors involved in a secondary market. An example of this type of secondary market would be the New York

Stock Exchange or the NASDAQ. Mutual funds are very flexible to accepting new investors, because they sell their shares on a continuous basis. Mutual fund shares are known as redeemable, this is because the investors have the ability to sell their shares back to the fund or the active broker associated to the fund. Investors do pay a fee for the mutual funds transactions of the net asset shares at the time the shares are purchased. Mutual funds are usually managed by separate groups or individuals. These entities are known as investment advisers and they are registered with the Securities and Exchange Commission²¹.

There are benefits as well as downfalls to having a mutual fund. A benefit to having a mutual fund is that it allows the investor to have a part in a diverse amount of funds. This is something that a common person, with a non-market related job, would not be able to do without a mutual fund. Mutual funds are also very liquid and it is very easy to access your cash. However the best part of a mutual fund is the fact that your money will be managed by a professional who is an expert in investing with mutual funds²¹.

Nevertheless there are downfalls to mutual funds as the stock market is unpredictable and there is no guarantee that your investment will pay off, even if invested by a professional. Also, since mutual funds are so liquid, they are very susceptible to higher taxes and fees when money is withdrawn. After one chooses their mutual fund to invest in, they have no control over the amounts traded or where their money is invested. Aside from having no say in where and how much money is invested they also cannot monitor their mutual funds portfolio, and also they cannot see the day to day value of their investment. They are essentially in the dark about their investments, and must have total confidence in the investors they give their money to²¹.

2.2 Certificates of Deposit

Certificates of Deposit are a type of deposit account with a bank that offers a higher rate of interest than a regular savings account. Also known as a CD, a certificate of deposit is a good match for an investor who is looking for a relatively low risk investment, which can be changed into cash. The way that a CD works is that when you purchase one, you are investing a fixed amount of money for a set period of time. In that time the bank that is issuing, pays you interest in regular intervals. When someone goes to cash in on their CD they not only get back the money that they invested, they also receive any interest that was accumulated. A draw back to a CD is if you redeem it before it matures, then you must pay a penalty known as an early withdrawal. If you become subject to early withdrawal you may have to pay the penalty or forfeit a portion of the interest that you earned¹¹.

As mentioned earlier most investors purchased CD's through local banks, however now independent sales people and brokerage firms offer CDs. These people are known as deposit brokers, and are able to negotiate a higher rate of interest for the CD. The certificates of deposit that the deposit broker negotiated for can now be offered to their customers. In the past, CD's were paid with a fixed rate of interest until they attained maturity. However, with today's market, the functioning of CD's are much more involved, as investors are now able to choose from variable rate CD's, long-term CD's, and CD's with other special aspects. When purchasing from a certificate of deposit from a local ban or brokerage firm, carefully read any fine print, do not be impressed with high yields, and ask questions such as to the maturity date. After doing so you will be able to successfully choose a CD with the features that appeal to you¹¹.

When investing money into certificates of deposits there are certain positives and negatives that apply to the investment. In a certificate of deposit the investor is paid a set rate of interest, and the CD's can also mature earning an interest rate that is proportional to the time the capital is in the investment. This allows the investor to calculate the expected earning for the end of the investment. They are also insured for up to \$100,000 and are a good suggestion for the elderly who wish to keep up the remainder of the capital for the rest of their lives. One big negative to the use of a certificate of deposit is that if the investor opts for a longer return and a higher rate of interest they lose the access to their funds and the inability to manipulate their money elsewhere or in another avenue¹¹.

2.3 Bonds

A bond is a type of debt investment in which an investor loans money to a business division either in corporate or government. They do this with the idea that these divisions will borrow the money/ funds lent for a set period of time with a fixed rate of interest. Bonds are typically used to finance various projects by municipalities, companies, states, US government, and foreign government. Bonds are one of the three main asset classes, and are commonly known as fixed-income securities. The issuer of the bond hands out the bond with an interest rate. This is known as a coupon, and will be paid when the loaned funds have been returned. In this situation the vernacular for loaned funds is commonly referred to as bond principal, and the returned is known as the maturity date. The factions will usually pay the interest on the bonds about every six months; this is known as semi-annually¹².

There are many types of bonds including corporate bonds, municipal bonds, and U.S. Treasury bonds, notes, and bills. There are also two features of a bond that determine the interest rate: Credit quality and the duration. Bonds can have maturities that range from the long term 30 year government bond, to a short term 90 day Treasury bill. The average maturity for a bond is usually around the 3 to 10 year range¹².

One good aspect of bonds is that when they rise and fall, they tend to do it less dramatically than the stock market, thus they are less subjective to volatile swings. Certain bonds are even able to provide a certain level of stability, which is very reassuring to most investors. Some bonds provided by the U.S. Treasurer can even provide liquidity in addition to stability which is a very appealing quality to the investor market. However there are some negatives to the option of investing with bonds. One thing is that bonds generally have lower annual returns than that of the stocks. Also another thing is that when interest rates increase bonds tend to fall. This especially affects long-term bonds as they become volatile if the interest rates go up or down¹².

2.4 Money Market

Essentially money market is a subsection of the fix income market. Money market deals with mainly short-term debt securities. This type of debt is viewed as debt that matures in less than one year. Because of their short term maturities Money market investments are also known as cash investments. Money market securities are basically IOUs that are handed out by the government, financial institutions, and large corporations. These securities are available at a degree which can be bought or sold in the market without affecting the markets price. Therefore these securities are known to be

very liquid, and because of such are very safe to invest in. Because Money Market securities safe to invest the returns on said securities are also significantly lower than the majority of other securities. The main difference between the Money Market and the Stock Market is that the Money Market is able to limit the access for the individual investor. They are able to do this by trading their securities in very high denominations. This is known as a dealer market, allowing that firms buy and sell their own accounts at their own risk. The opposite is seen in the stock market where a broker will receive a commission as they act as an agent for the investor. In this situation the broker assumes no risk for the actions of the stock. All of that risk is placed into the hands of the investor in the stock market. Also in Money Market deals are conducted over the phone or through electronic systems, unlike the stock market where deals are conducted on the central trading floor¹⁰.

The simplest way to gain access to the Money Market is through Money Market funds or a Money Market bank account. These accounts are funds that have been pooled together by large numbers of investors, thus to buy money market securities on their behalf. However there are some ways of investing that allow them purchase them directly, known as Treasury bills¹⁰.

Money markets also have the benefit of being able to earn interest between investments, and are ideal for someone who regularly invests. Money market is also very liquid and can easily be used to buy stocks, bonds, or mutual funds. Money market funds are great for in between investments and tend not to loose money. However they do fluctuate with inflation, which can also lead to higher returns. The only negative to money markets accounts is that they do not tend to have high returns¹⁰.

2.5 Stock Market

In today's world, business is the keystone to every economy world wide. Basically, every corporation starts out as a small scale operation, and though time and growth become industry giants. These companies are able to become so large, because they raise capital and begin investing in themselves. One of the biggest obstacles to overcome when a company is growing is the ability to raise money. They have two options in this situation, they can either take out a loan from a bank or venture capitalist, or they can sell parts of their company to investors and use that money to aid the growth of the company. This is where the Stock Market comes into play¹⁴.

The definition of the term Stock Market is the concept for the mechanism that enables the trading of company stocks and securities. The stocks are listed and traded in places called stock exchanges. These places are a corporation or a mutual organization that are known for bringing buyers and seller of the stock market and securities together. As for the United States, there are three main markets for trading and they are known as the New York Stock Exchange (NYSE), National Association of Securities Dealers (NASDAQ), and the American Stock Exchange (Amex). There are other smaller markets, known as regional exchanges. An Example of such an exchange is the OTC Bulletin Board, and The Pink Sheets. There are also markets outside of the US such as European stock exchanges and examples of those are Paris Bourse, London Stock Exchange, and Deutsche Borse¹⁴.

In the market there is a constant movement of prices, these prices are captured in price indices. These price indices are called market indices, examples of these market

indices are the S&P, the FTSE, and the Euronext. These indices are usually weighted by market capitalization¹⁴. Market capitalization is also known as the total market value of the companies floating capital. These weights are represented by the index of the contribution of the stock and its worth. Associated to the stock market, and stocks are the derivative instruments. These are options and methods of investing that have been brought about due to financial innovation. Examples of such are exchange traded funds (ETFs), stock options, commodity options, bond options, index equity options, and options on future contracts/exchanges. The stock market is a complex and interesting device, and understanding it is the key to success¹⁴.

There are benefits and disadvantages to participating in the stock market. In the stock market one benefit is that stocks typically have potential for higher returns over long term durations. This is in comparison to other investment methods and asset classes. Also another benefit to the stock market is that some stocks are able to pay dividends. These dividends have the capability to cushion a drop in share price, and also provide extra income, which can be used to buy more shares and increase your assets. However there are downfalls to investing in the stock market. The major concern is the volatility of stocks allowing them to rise and fall dramatically. Also one major fact that people often overlook when investing into the stock market, is that there is no guaranteed return on their stocks¹⁴.

2.6 Hedge Fund

The main goal of a hedge fund is to reduce volatility and risk while simultaneously making an effort to deliver positive returns and preserve capital. Hedge

funds are able to take money and invest in almost any opportunity or market, and produce impressive gains with low risk. Hedge funds are able to take long and short portions, use arbitrage, buy and sell securities, trade options, trade bonds, and then turn them into positive returns¹³. There are currently 14 distinct strategies for investment with hedge funds. Each of these strategies offers varying degrees of risk and profit, such as a Macro hedge fund. In a Macro hedge fund one will invest in stock and bond markets, as well as other opportunities such as currencies, with the hopes of profiting by such things as global interest rates and countries economic policies¹³.

Hedge funds use financial instruments to help reduce risk, increase their returns, and are flexible in their investment options. Usually hedge funds are managed by knowledgeable and experienced investment professionals, who are successful because they are disciplined and diligent. The typical investors in hedge funds are endowment, insurance companies, private banks, individuals, pension funds, and families. Hedge funds have great success because they are usually in the hands of brilliant management, and the key to success with investing is to know and understand every aspect and characteristic of what you are investing in. The wages of the hedge funds managers are geared towards performance incentives, thus they are able to attract the smartest and most successful people in business of investment. These managers are typically confident enough to have their own money invested in their funds. There is approximately 1 trillion dollar industry with a growth rate of 20% each year, and an estimated 8350 hedge funds that are active¹³.

2.7 Treasury Bills

Treasury bills are defined as short term debt instruments, meaning that the government uses these as bonds to raise funds. The idea is that a Treasury bill with a certain face value is sold at a discount to an investor, and is agreed to be paid in full by the government at some later date, called its maturity date. Treasury bills are sold in standard 4 weeks, 1 month, 3 months, 6 months, and 1 year maturity lengths; however they do not pay interest prior to these dates²².

The government also issues what are called cash management bills (CMBs). When Treasury cash balances are low, these are sold at a discount and by auction. However, unlike Treasury bills, they are of irregular length of maturity; usually less than 21 days. These are aimed at generating quick funds for the Treasury at low pay-outs.

T-bills are particularly attractive because of the high liquidity in short-term government debt. This is generally due to the excellent credit standing and low default risk of the issuer (the federal Treasury), as well as the high volume and low denomination size of the bonds. In fact, many think treasury bills are the most risk-free investment for U.S. investors. Nowadays, individuals can even purchase T-Bills online, using money withdrawn and deposited directly from personal bank accounts and earn higher interest rates on their savings²².

2.8. Concluding remarks

In conclusion there are several avenues in which one can invest their money. Choosing the correct one is an independent and important decision that must be carefully researched and decided upon. As with all investment options they provide chance of real

gain and real loss. Therefore, to increase chances of success, research all options and make educated decisions as to the option that best suits you.

3. TRADING METHODS

In the following section we have researched several of the most popular methods of trading stocks: Day trading, Swing trading, Trend following, Value investing, and Buy and Hold. These methods show styles ranging from the very active to the very dormant trader, and from these it can be seen that there is a method for any investor.

3.1 Day Trading

Day trading is the practice of rapidly buying and selling different financial instruments on a daily basis. Many day traders trade with commodities, options, or other instruments, however it is most commonly done with stocks. Day traders hope to lock in profits though buying large amounts of stock, hoping they will increase in value for the minutes, even seconds, they own them. At one time, day trading was practiced only by financial firms and professional investors, working as bank or investment firm employees. Nowadays, with the advent of the Internet, day trading has become quite accessible evermore popular with a rise in casual traders.

A day trader does not necessarily trade very actively. Depending on the trading strategy, the number of trades per day range from several to hundreds. Those who focus on very short (short-term) trades buy and/or sell many times in a day, where trades may last seconds to a few minutes. Since they are usually trading at very high volumes, the brokerage will give day traders large discounts per trade. A day traders may also focus solely on momentum or trends of stocks. They will wait for a strong move on that day and ride the momentum of the stock before it falls. Most day traders will sell all their shares before the market close that day, since differences in price between the previous

day's close and the next day's open can vary greatly. This is also encouraged because most day trader's trade on borrowed money and more interest can be charged on overnight balances.

Day trading can be extremely profitable, and just as unprofitable. Traders can generate large returns with a high risk of huge losses. Some day traders can earn seven figure incomes per year by day trading alone. The legal minimum a day trader must maintain in his account is \$25,000. To hold a position on borrowed money overnight, one must retain a margin of, typically, 50% of the stock's value, meaning a broker would allow a trader with \$25,000 in his account to buy \$50,000 worth of stock during the day, as long as half of those positions are sold before the market close. With such a high risk of debt, a day trader must be careful not to hold a losing position too long, where losses larger than his original investment, or even larger than his total assets, could occur.

Advantages of swing trading include no overnight hold exposure, with profits from both long and short positions, taking quicker profits and smaller risk. ; However, day trading requires the most effort. Consistent or active attention to the markets is a must during the trading day. Also, making many trades within a day, even with brokerage discounts, can run up a large commission bill by the end of the day³⁰.

3.2 Swing Trading

Considered to be between day trading and trend following, Swing traders generally will hold a particular stock from a few days to two or three weeks. Among the best candidates for this method are large-cap stocks that are actively traded, such as Microsoft and Exxon Mobil. In an active market, these stocks will jump between high

and low extremes, where the swing trader will ride the momentum of rising prices for a couple of days or weeks, then sell when the stock reverses direction.

Stocks tend to trade above and below a baseline value, portrayed on a chart with an exponential moving average (EMA). Swing traders typically use the EMA to identify the baseline on the stock chart, then buy when the stock is heading up from the baseline, and sell when the stock is heading down. Swing traders do not aim to hit huge profits with a single trade, nor are they concerned about finding the perfect time to buy a stock (buying precisely at its bottom price and selling precisely at its top). Instead, they are more concerned with the EMA, and will wait for the stock to hit its baseline and decide its direction before taking a position.

Swing trading is one of the best trading methods for the novice trader to become familiar with the market, while this method can still show significant profits for intermediate and advanced traders. Feedback on trades after several days helps to keep swing traders motivated, while their long and short positions over a couple days allow hardly enough time to become distracted. In comparison, the method of trend following will offer more potential for profit only if a trader is able to identify a major market trend lasting weeks or months and is disciplined enough to hold a position for that period of time without becoming sidetracked. And, on the other hand, the hectic strategy of constantly buying and selling with day trading, makes swing trading seem a perfect medium between the two³¹.

3.3 Trend Following

Trend following is an investment strategy aimed at taking advantage of long-term moves that seem to respond in specific markets. This method involves managing risk using three components; current market price, current market volatility, and the amount of equity in an account. With these, an initial risk rule determines the amount of the investment at the time of entry, where changes in price can lead to small reductions or additions to the initial trade. However, poor price movements can signal an exit for the whole trade.

There are four things to consider when trend following. The first concern of trend following is price. Such indicators showing where prices will or should be generally should be ignored, and traders should only be concerned with what the market is currently doing, not where the market might go. The price and only the price will tell you where the market is at, currently. The second concern is money management. Here, it is not the timing of the trade but deciding how much to trade over the course of the trend that is important. The next concern is risk control, where the ability to cut losses is key. When the market shifts to a period of high volatility, or losing periods, trading amounts should be reduced, in an effort to preserve capital until more positive price trends appear. And finally, the concern of rules in trend following make this method very systematic. Price and timing are always crucial, and this procedure does not rely on an analysis of basic supply and demand factors³².

3.4 Value Investing

Idea behind value investing is that the investor is to select stocks that trade for less than their intrinsic value. The concept behind this idea is that the investors are constantly on the lookout for stocks that they believe are undervalued. They work on the notion that the market overreacts to news of any sort, good or bad, causing the movements of the stock market prices. They are able to distinguish that these movements will have no effect on the direction of the stocks future for long-term. So the principle is that the investors seize the stock when the price is deflated.

There are problems with value investing, the main being the interpretation of the intrinsic value. Intrinsic value is all subject to interpretation, and is a difficult to decide whether or not it is valuable now. An example is that two separate investors can both provide the same information about a stock, yet make completely different decisions about the intrinsic value of the stock. Therefore whenever an investor is using the value investing method they must make room for error using the “margin of safety” concept. The theory behind this concept is that the investor will buy their stock at a price that is such a discount. They do this to create leeway in case their stock does not act as they predicted.

The definition of value investing is up subjective. There are two views that are currently held by investors. The first is that the investors look at current assets/earnings and are not very concerned with future growth. The other view that a value investor may hold is that all emphasis is placed on the future of a stock and they hope to pick a stock that is a bargain now and will prove to be a highly valued stock in the future. Nevertheless the concept behind both of the methods remains the same. The investor

wants to select stocks with lower-than-average price-to-book or price-to-earnings ratios and/or high dividend yields³³.

3.5 Buy and hold

Buy and hold is a long term investment strategy based on the idea that in the long run, despite periods of volatility or decline, financial markets give a good rate of return. This strategy is the direct opposite of the concept of day trading, where traders are instead holding investments regardless of their price direction and making money on their growth over years. The efficient market hypothesis (EMH) is one of the strongest arguments for this strategy. The EMH states that if every investment is well valued at all times, then profit will automatically be made over time, and there is no point to trade. Some investors use the buy and hold strategy to such an extreme that they believe a security should never be sold unless money is needed in a case of a personal financial emergency³⁴.

3.6. Our strategies

To determine an appropriate investment strategy for our simulation, while keeping profit as the main objective, we must look at the aspects which define how each strategy is used. With only four weeks of trading, using a buy and hold strategy would not make much sense. Likewise, since a true day trading approach is very time-consuming, we felt we would not be profitable because we would not be able to truly dedicate as much time to the method as needed. It was therefore decided that we would trade our stocks in a way that paralleled the Swing trading method. This method seemed very appropriate, as our research in this section shows it to be right between the extremes

of day trading and buy and hold. Likewise, it was decided through our research that this method was most likely to be profitable with a timeframe of only four weeks; and especially so with inexperienced investors like ourselves.

4. COMPANY PROFILES

This chapter will discuss the various companies that we chose to invest in during this simulation, and the reasons for choosing these companies. The majority of our company picks were based on several common characteristics: previous trends, current trends, current growth, company innovation, time of year, and analyst recommendations. In this simulation we formed two different portfolios. The first portfolio by Eric Sheridan included the companies, Under Armour Inc., Pacific Ethanol Inc., Archer Daniels Midland Co., Office Depot Inc. Tiffany's & Co. The other portfolio was managed by Seth Bleech, and included Coach Co., Amazon.com Inc., General Electric Co., United Parcel Service Inc., Abercrombie and Fitch Co.

4.1 Under Armour Inc. (UA)

Sector: Consumer Cyclical

Industry: Apparel/Accessories

Under Armour, Inc., became incorporated in 1996 and is an up and coming brand of performance wear. They are thoroughly engaged in the design, development, marketing and distribution of the products. The company makes products for men, women and youth. The Company designs synthetic micro-fiber fabrications and sells the active, sports apparel, accessories, and footwear. This special micro-fiber clothing is designed to wick perspiration away from the skin, this allows the body to help regulate body temperature. The product provides enhanced comfort and mobility to improve performance, and is designed to operate in all weather conditions. The Under Armour Inc. products are offered globally in 12,000 retail stores and are available in the United

States, Canada, Japan and Europe. They distribute these products through large national and regional chains of retailers²⁰.

The Under Armour Inc. makes three different products HeatGear, ColdGear, and AllSeasonGear. Under Armour made their first line of cleats available in stores in June of 2006. The company also has a line of performance bags, socks and headwear are designed to be used and worn before, during and after competition. The performance of these products is similar to the companies other product offerings. The Under Armour Inc has agreements with accessory licensees, including Moretz Sports. Mortez Sports manufactures athletic socks under the Under Armour brand. The Under Armour, Inc. main competition is that of Nike and Adidas²⁰.

I chose the stock Under Armour (UA) for several reasons. When I was researching stocks I was looking at all of the lists on sites such as Cramer's list and noted that the stock was very hot at the current time. From the months of July to August the stock had climbed near 20 points. I thought that I would be able to jump onto the tail end of this rise. All research indicated that Under Armour stock had no ceiling at the current time, as the stock had done nothing but grow vertically since April, shooting up a total of 23 points. All the information and research indicated to me that this would be a great stock to buy, even if to hold onto for a short while. I planned on making minimal trades with this stock and just to let it grow for a short duration; this stock was more of a short term investment²⁰.

4.2 Pacific Ethanol Inc. (PEIX)

Sector: Basic Materials

Industry: Chemical Manufacturing

Pacific Ethanol, Inc. was incorporated in March of 2005, produces and distributes ethanol and its sister products. PE inc. also provides transportation, storage, and delivery of ethanol via third-party service providers that are located in the Western United States. The majority of these are located in the western portion of America, California, Nevada, Arizona, Washington, Oregon and Colorado. Pacific Ethanol completed construction of an ethanol production plant with an annual production capacity of 35 million gallons. The Ethanol is located in Madera, California and began producing in October 2006. In that same year Pacific Ethanol also acquired 42% of the “outstanding membership” interests of Front Range Energy. Front Range Energy owns and operates a production facility with an annual production capacity of 40 million gallons. Pacific Ethanol also purchases from ethanol from third-parties and resells ethanol to customers in the Western United States. Pacific Ethanol Inc. arranges for storage, transportation and delivery of any ethanol purchased from its customers. The company's revenue is gained from sales of ethanol to oil companies. In the year 2006 Pacific Ethanol produced, purchased from third parties, and sold 102 million gallons of fuel-grade ethanol to about 60 customers²⁰.

Pacific Ethanol Inc. (PEIX) stock is the cheapest stock that bought. I bought this stock, because of its relation to the Archer Daniels Midland Co. This company is also involved in the creation of ethanol for the use as an alternative energy source. I think that this company has great predictions for future success, and will grow to great heights when the world call for alternative energy as ethanol is the current leader. I was taking

this opportunity to really look into this company and see how it behaves, because I have future plans to invest in this company. Nevertheless, this company was still an excellent low cost choice. This allowed me to buy substantial amounts of shares and once again pay close attention to the activity of the stock and the news that surrounds it. This will help me make educated decisions as to my investment, and reducing my risk, while increasing my success. I will mainly rely on the method of short-term swing, and the day trading method. Also I think that for the future that this stock is great for value investing, as PEIX is undervalued²⁰.

4.3 Office Depot Inc (ODP)

Sector: Services

Industry: Retail

The company Office Depot Incorporated was established in 1986. The main of object of Office Depot is to supply office products, services, and information globally. This incorporated company produces its sales through the internet, consisting of office supply stores, a contract sales group. The company also uses the direct marketing of catalogs and call centers to help spread the word by site and sound. All of the Office Depot stores are supplied by a new technique in retail trucking industries. Crossdocking helps to rapidly consolidate shipments from disparate sources. Crossdocking is almost able to eliminate the “inventory-holding” function of a warehouse, at the same time allowing it to serve its consolidation and shipping task. The basic concept is to transfer incoming shipments directly to outgoing trailers, and eliminates the action of storing

them in between. The average shipment spends less than 24 hours at the facility, and in some cases less than an hour¹⁸.

Office Depot Inc. is distributed into three business factions, the North American Retail division, the North American Business Solutions division, and the International division. In the late end of December 2006, Office Depot Inc gained another small independent supplier of office products, known as Allied Office Products. Office Depot then continued its conquest into European territory as it acquired Papirius s.r.o. which is supplies office products and services to Eastern Europe. After Papirius, Office Depot expands to Asia in October 2006 by claiming a majority stake in AsiaEC which is a supplier of office products and services in China¹⁸.

I decided to invest in the Office Depot Co. because I wanted to play the volatility that I knew this stock possessed. I realized that in the past year this stock has done nothing but decline, dropping a total of 20 points. However, after looking at the stock on a daily basis I noticed that since the stock price was so low that the company significantly affected by almost anything that happened to it. All of that information was posted in news feeds, and on the internet and making it very easy to predict the way the stock was going to behave. This is only true if the investor stayed dedicated to watching the stock and constantly reading news that the company was involved in to make educated decisions about investing. Also I predicted that there would be a slight increase in the stock as I was investing during the back to school season, hoping this would bring in more revenue that I would be able to capitalize on. Another thing that I like about buying stocks that are a low in price is that even if the stock is not that active and only rises a point, you will make much more money that if a more expensive stock rises a point

because I will have more shares of the lower priced one. Thus I will be using this stock to show how one can be successful off low priced and volatile stocks¹⁸.

4.4 Tiffany and Co. (TIF)

Sector: Services

Industry: Retail

TIFFANY & CO. is the father company of Tiffany and Company also known as Tiffany's. The company's many jobs include engaged product design, manufacturing and retailing activities. The headline of the TIFFANY & CO would be the brand jewelry at a variety of prices. However the company does not only create jewelry but also timepieces, clocks, sterling silver merchandise (including flatware, tea, coffee cups, bowls, and trays), trophies, key holders, picture frames, desk accessories, stainless steel flatware, crystal, glassware, china, custom engraved stationery; writing instruments, and fashion accessories. The company also has a line of fragrance products that are also sold under the trademarks. These fragrances are TIFFANY, PURE TIFFANY and TIFFANY FOR MEN. During the year 2006 approximately 83% of the Company's net sales were TIFFANY & CO. brand jewelry. The Company operates under four channels of distribution: U.S. Retail, International Retail, Direct Marketing and Other¹⁶.

The U.S. Retail branch consists of retail sales of TIFFANY & CO. stores in the United States and also the sales of TIFFANY & CO. products through business-to-business direct selling operations in the United States. Aside from the renowned New York Flagship store, Tiffany had 63 branch stores in the United States. The TIFFANY & CO is able to distribute a selection of more than 3,500 products through the internet and

its website. The International Retail branch is comprised of stores and department store boutiques outside the United States. The total sales in Japan of TIFFANY & CO. merchandise represented 19% of the Company's net sales. The TIFFANY & CO allows England, Wales, Northern Ireland and Scotland to purchase goods through its United Kingdom Website at www.tiffany.com/uk. These sales were able to represent 2% of the company's net sales in 2006. The Direct Marketing is the sector of the company that consists of Internet and catalog sales of TIFFANY & CO. that is strictly for the products sold in the United States¹⁶.

I decided to invest in the Tiffany & Co. because TIF is a company that will hold its value. TIF is the parent company of the Tiffany's Jewelry, whose main products are all silver. After looking at TIF's yearly charts and analyzing the reports, I found many traits of a company that could be profitable off. TIF is known as one of the most respected and tasteful jewelry creators of the current era. I knew that for the length of time that I was investing, there was minimal risk for loss. Also the TIF has been on a constant rise since July of 2006, raising a total of 25 points. I also noticed that right before I bought the stock there was a 15 point dip and it slowly began to increase. This was an excellent time to strike and buy this stock as I knew that this stock would recover and continue growing as it had been¹⁶.

4.5 Archer Daniels Midland Co. (ADM)

Sector: Consumer/ Non-Cyclical

Industry: Food Processing

The Archer-Daniels-Midland Company became incorporated in 1923, with the main goal is of procuring, transporting, storing, processing and merchandising agricultural products. The Company's runs its operations split up into three business factions, Oilseeds Processing, Corn Processing and Agricultural Services. The rest of the company's dealings are held under a category known as other. In September, 2006, the Archer-Daniels-Midland Company gained the venture Classic Couverture. Classic Couverture is a well known United Kingdom-based chocolate manufacturer. Then again in April, 2006, the Company also gained a significant portion of the assets of Groupe Lysac, Inc. ADM continued its conquest and again in December 2006, the group acquired all of the assets of Haldane Foods Limited, and also acquired the assets to its meat-free and non-dairy beverage business in Newport Pagnell, the United Kingdom, through the company¹⁷.

The oilseed processing department of the company deals with soybeans, cottonseeds, sunflower seeds, canola, peanuts, and meals used mainly in the food and the feed industries. These products are used in the process and creation of salad oils, interesterifying margarine, chemicals, paints, poultry feeds, and biodiesel fuel. The corn processing section of the company is done by wet milling and dry milling. Their product is used in the food and beverage corporation. Such items as syrup, glucose, dextrose, and sweeteners are all made from their corn processing division. A very attractive part of this division is that they also produce the ethyl-alcohol and ethanol that is used in gasoline to

increase the octane. Not only does it boost the octane, the ethanol produced also is also used as an extender and oxygenate. This is one of the main reasons that I purchased stock in this company. ADM is one of the biggest creators and suppliers of ethanol needed for the future technology of gasoline¹⁷.

ADM also has a segment of the company called other which deals with everything else that is not under the first two categories. One operation underneath other is the company's large grain elevator and transportation service network. In this segment of the company they buy, clean, and transport agricultural products such as oilseed, corn, wheat, milo, oats, and barley. Also ADM deals with milling wheat, corn, and milo into flour. Wheat flour is sold to commercial bakeries, food companies, food service companies, and retailers. ADM also mills milo producing industrial flour used in the manufacturing of wallboard for the building industry. Another venture the Archer-Daniels-Midland Company is involved in is the producing of dietary vitamins using soy isoflavones, from a co-product of edible soy processing. A subsidiary of the Company, Agrinational Insurance Company, provides insurance coverage for certain property, casualty, marine, and other miscellaneous risks of the Company participates in¹⁷.

My investment in the Archer Daniels Midland Co (ADM) has better long term projections and can be associated with my stock in the Pacific Ethanol Company (PEIX). I believe that gasoline is soon to be a thing of the past within 10 – 15 years. Ethanol is a far better renewable source for combustion in various types of engines. There are too many negatives, such as price, and environmental effects associated with the use of gasoline to outweigh the good as of now. Ethanol will not only be twice as cheap, cleaner for the environment, but renewable to. Ethanol technology will not be exploding

in the US anytime soon, but is in full effect in Brazil and the success has not gone unnoticed. Therefore I chose ADM because they are the largest company in the US involved in producing, procuring, and transporting agricultural goods mainly corn. Corn is the main contributor in the production of ethanol. Thus, I see great success for this stock in the future, as they will most defiantly be the involved in this soon to be worldwide phenomenon. Also this stock currently has great volatility for any investor looking to use the short-term swing method of investing. I was intending on using the short-term swing method, so I decided to choose this stock and monitor its news feed on a daily basis¹⁷.

4.6 United Parcel Service (UPS)

Sector: *Transportation*

Industry: Air Courier

Founded in 1907, the United Parcel Service expanded its operations throughout the country until 1975, when UPS officially offered service to all 48 contiguous states. UPS now offers service to over 200 countries worldwide, as well as other services such as logistics, packaging, and copy services. The primary business of this company includes time-sensitive delivery of packages and documents. Other services of UPS include supply chain solutions, such as freight forwarding, customs brokerage, fulfillment, returns, financial transactions, repairs and less-than-truckload (LTL) transportation services. The Company operates in three segments: U.S. Domestic Package operations, International Package operations, and Supply Chain & Freight operations. As of December 31, 2006, the Company delivered packages each business day for 1.8 million shipping customers to 6.1 million consignees in over 200 countries

and territories. During the year ending December 31, 2006, UPS on average delivered 15.6 million pieces worldwide per day. Its supply chain solutions capabilities are even available to clients in over 175 countries and territories.

CEO Mike Eskew has expanded operations across Asia, and it is paying off, with international sales growing 14% last year and now making up nearly one-fifth of overall revenues. Also, initiating a new “package flow technology” is helping boost productivity and cut costs. The new initiative will even allow customers will be able to reroute packages to new destinations while they’re already en route. With these expansions and new innovations, UPS profits have jumped 45% over the past three years, and we have decided here a good place to invest our money²⁶.

4.7 Coach (COH)

Sector: Consumer Cyclical

Industry: Apparel/Accessories

Founded in 1941 as a family-owned business, this American leather goods company credits approximately 64% of net sales during 2007 to their handbag collections, which typically debut in three to four collections per quarter and four to seven styles per collection. Coach also offers many items such as luggage, briefcases, shoes, umbrellas, sunglasses, watches, and even office furniture, including many accessories falling under one of three categories: Women's small leather goods, Men's small leather goods, and novelty accessories; such as electronic, time management and pet accessories. These accessory sales accounted for 28% of net sales during 2007.

Incorporated in June 2000, the company now operates in two business segments: Direct-to-Consumer and Indirect. The Direct-to-Consumer segment provides the Company with immediate and controlled access to consumers through retail and factory stores, located in North America and Japan, as well as on the Internet and in catalogs. By 2007, the Direct-to-Consumer segment represented approximately 80% of Coach's total net sales, with stores in North America and Japan accounting for about 58% and 18% of total net sales, respectively. The Indirect segment, concerned with domestic and international Wholesale, contributed around 20% of total net sales within the United States in 2007. Since Coach was originally a US wholesaler to department stores, and with Wholesale and International Wholesale now representing around 12% and 5% of total net sales, respectively, this segment remains very important to the company.

We picked Coach to be a good investment because of the well established reputation of the brand name, as well as Coach's strong performance in the market since going public in 2000. Also, by extending the brand to secondary products, such as jewelry this past year, Coach is poised to steal sales from competitors in the U.S. and overseas. CEO Lew Frankfort calls the brand "vibrant," insisting that "our opportunities, notably in our home market, are boundless."²⁷

4.8 General Electric Company (GE)

Sector: Conglomerates

Industry: Conglomerates

In 1876 Thomas Eddison, businessman and inventor, invented the incandescent electric lamp. By 1890 he had founded the Eddison General Electric Company. However, with the emergence of a new competitor, the Thomas-Houston company founded by Charles A. Coffin, it became more and more difficult for either company to expand in their electrical practices with the limited and separate patents and technologies of each company. Thus, in 1892, the two companies joined together to form the General Electric Company. Today General Electric is the world's second largest company, and possibly the most successful organization in technology and services. Of the original 12 companies to trade in the NYSE under the DOW index, it is the only one that still remains now 111 years later. Affiliates include NBC Universal, Inc., and General Electric Capital Services, through which GE provides a wide range of services, from network television services to consumer, commercial, and industrial financing. GE is broken into six operating segments: Infrastructure, Commercial Finance, GE Money, Healthcare, NBC Universal and Industrial.

The Infrastructure section deals primarily with production and servicing in air and rail transportation, as well as with energy generation and water treatment. Commercial Finance offers worldwide financial solutions for manufacturers, distributors and end-users, including loans, leases, and inventory finance. GE Money is a financial company which deals more with consumers and retailers rather than large manufacturers, providing

products such as personal loans, auto loans, private-label credit cards, bank cards, mortgages, debt consolidation, home equity loans, and global credit insurance. Healthcare manufactures sells and services different medical devices, such as for x-rays, patient monitoring, nuclear imaging, ultrasound, bone densitometry, and therapy. In fact, just last month, Healthcare received approval from the FDA for a new mobile mammography machine, which will allow more women worldwide access to breast cancer screening. NBC Universal broadcasts network television services, produces and distributes television programs and motion pictures, operates television broadcast stations, and even operates theme parks. The company's network operations include the USA Network, Bravo, CNBC, Sci-Fi Channel, MSNBC, and numerous entertainment channels throughout Europe and Latin America. GE Industrial manufactures and sells products and services relating to consumer appliances and industrial equipment and plastics.

We have taken interest in this company because of its great reputation and success, and therefore being a safe company to invest in. This stock has been gradually rising since early 2003, after plummeting in 2000. With a new push towards cleaner and more environmentally friendly technology, we felt that General Electric Co. stock prices will continue to rise to what they were in 2000²⁸.

4.9 Abercrombie & Fitch (ANF)

Sector: Services

Industry: Retail (Apparel)

Abercrombie & Fitch began as a store for outdoor sporting by David Abercrombie and Ezra Fitch in the beginning of the 20th century. However, Abercrombie wanted the

company to continue to sell gear to professional outdoorsmen, while Fitch wanted to expand their brand to the general public. Abercrombie sold his share in 1907 to pursue his vision of a professional sports brand, while Fitch continued the company's "outdoors" feel for the average person. Nowadays, ANF is a specialty retailer that operates stores selling casual apparel, such as knit shirts, graphic t-shirts, jeans, woven shirts, shorts, as well as personal care and other accessories for men, women and kids, with brand names including the Abercrombie & Fitch, Abercrombie, Hollister and RUEHL. In 1992, the Company began redirecting Abercrombie & Fitch as a fashion-oriented casual apparel business. Marketing was directed at 18 to 22 year-old male and female college students with a fashions reflecting a youthful lifestyle based upon an East Coast heritage and Ivy League traditions. In 1998, A&F first launched Abercrombie, a brand directed at seven to 14 year-old boys and girls based on the fashions of Abercrombie & Fitch. In 2000, the Company launched its next brand, Hollister. Hollister is a West Coast oriented lifestyle brand, which represent the laid-back California surf lifestyle targeted at 14 to 18 year-old, high-school guys and girls. As of February 3, 2007, the Company operated 944 stores in the United States and Canada²⁹.

4.10 Amazon.com (AMZN)

Sector: Services

Industry: Retail (Specialty)

Founded in 1994, Amazon.com is an e-commerce company that started as an online bookstore, the idea being that online stores could offer many more title than a tradition retail location. Slow growth in the 90's allowed Amazon.com to survive the dot-

com bust, finally turning a profit by the end of 2002. Then, by 2006, revenues had increased from \$3.9 billion (in 2002) to \$10.7 billion. Amazon.com also provides services for third-party retailers, marketing and promotional services, and Web services for developers. Additionally, the Company operates websites that enable search and navigation and www.imdb.com, a movie database. Amazon.com has organized its operations into two principal segments: North America and International. The North American segment includes www.amazon.com and www.amazon.ca. The International segment includes www.amazon.co.uk, www.amazon.de, www.amazon.fr, www.amazon.co.jp and www.joyo.com. In May 2007, Amazon.com acquired www.dpreview.com, a website for digital camera information and reviews. In May 2007, the Company acquired Brilliance Audio, an independent publisher of audio books in the US.

In the past few years, Amazon.com .com has invested much of its earnings in new technology. In 2006, they began work on an online movie service called Amazon Inbox, hoping it to become a revolutionary digital utility to compete with Apple Inc.'s "iTunes." CEO Jeff Bezos is also taking the retailing company into completely new markets, offering paid services that allow clients to utilize and lease Amazon's enormous computing power for their own company's use. Although these investments have yet to pay off, Amazon.com is well positioned for growth in the near future, with strong sales last year of \$10.7 billion, up 26% from the year before³⁰.

5. SIMULATION DATA

This is the section of our paper that will show everything occurring during our simulated trading experiment. On August 8, 2007, we began trading our ten selected companies based on real-time prices over the New York Stock Exchange; ending on September 21, 2007. In a journal type log, we record all data such as trades, price changes, media reports, and personal emotion.

5.1 Weekly Summery 1

8/22/07-8/31/07

5.1.1 Portfolio 1 (by Eric Sheridan)

This was the first week that we picked our companies in which to invest and began our trading simulation. In this summery and here on I will report on the results of the stocks that I have been investing in using my strategies. To begin I started with \$50,000 and invested as much as possible into each of my five stocks. The companies that I chose were based on instinct, and personal research. In the end I chose Under Armour (UA), Tiffany INC (TIF), Archer Daniels Midland Company (ADM), Pacific Ethanol (PEIX), and Office Depot (ODP). I began investing on Thursday August 22, 2007 and waited for a good time to strike. For the first two days I made average of one trade a day waiting till the stocks were ripe to sell and pick. I found that for some reason the stock price was high in the early mornings; therefore I sold, and waited for the stock to take a reasonable dip. When the stock hit that low I reinvested all of my money including the profit that I made. I ended up making a reasonable amount of profit with a high of \$331.52 in TIF, and a low profit of \$25.29 in ODP. I did not trade my Under

Armour stock, because as soon as I invested the stock immediately depreciated, I am choosing to ride out that stock with long term plans with hope that it will rise enough that I might break even or minimal loss. I then decided to use the short term swing method, which the one I am still currently using, and this method has proven successful for some and not for others. As of now, the current profit that I have earned is \$2785.38. That number is just from the ODP, TIF, PEIX, and ADM stocks, because I have not touched my UA stock but as of now I am at a loss of \$527.15. I am going to continue my short term swing method of investing for the next week so that I can develop a better analysis of the method.

Figures 5.1.1-5.1.5 give the charts of the stocks and the trends that I analyzed leading up to this simulaiton. Table 5.1.1 has the stock transactions



Figure 5.1.1: Under Armour Inc; Week 1



Figure 5.1.2: Office Depot Inc; Week 1



Figure 5.1.3: Pacific Ethanol Inc; Week 1



Figure 5.1.4: Archer Daniels Midland Co; Week 1



Figure 5.1.5: Tiffany & Co; Week 1

The table 5.1.1 below represents all transactions for the first week of the trading simulation.

Date	Symbol	Action	Price	Shares	Net Proceeds	Cost/ Profit/ loss	Total Cash	Total Profit
8/22/2007	ADM	Buy	32.51	306	-\$9,958.06			
8/22/2007	ODP	Buy	23.80	419	-\$9,982.20			
8/22/2007	UA	Buy	68.54	145	-\$9,948.30			
8/22/2007	TIF	Buy	44.63	223	-\$9,962.49			
8/22/2007	PEIX	Buy	11.85	843	-\$9,999.55		\$149.40	
8/23/2007	TIF	Sell	46.11	223	\$10,282.53	\$330.04	\$10,469.44	\$330.04
8/23/2007	ODP	Sell	24.14	419	\$10,114.66	\$142.46	\$20,601.90	\$472.50
8/23/2007	PEIX	Sell	11.88	843	\$10,014.84	\$25.29	\$30,616.74	\$497.79
8/23/2007	ADM	Sell	33.03	306	\$10,107.18	\$159.18	\$40,765.86	\$656.97
8/24/2007	ADM	Buy	32.87	308	-\$10,133.96		\$30,631.90	
8/24/2007	ODP	Buy	24.00	421	-\$10,114.00		\$20,517.90	
8/24/2007	TIF	Buy	44.98	229	-\$10,310.42		\$10,207.48	
8/30/2007	ODP	Sell	24.66	421	\$10,381.86	\$277.86	\$20,607.52	\$884.83
8/31/2007	TIF	Sell	51.80	229	\$11,862.20	\$1,561.78	\$32,479.34	\$2,446.61
8/31/2007	ADM	Sell	33.88	308	\$10,435.04	\$311.08	\$42,929.54	\$2,757.69

Table 5.1.1: Portfolio 1; Week 1

5.1.2 Portfolio 2 (Seth Bleech)

First, I purchased stock in the General Electric Company (GE). I originally took interest in this company because of its great reputation and success as a conglomerate. This being a safe company to invest in, and with a budget of \$10,000 USD per company, I bought 260 shares at \$38.45 on August 28, 2007. I plan on holding these shares for the majority of this project, mainly because this stock has been gradually rising since early 2003, after plummeting from its all time high of just under \$60 per share in 2000, shown below in figure 5.1.6.

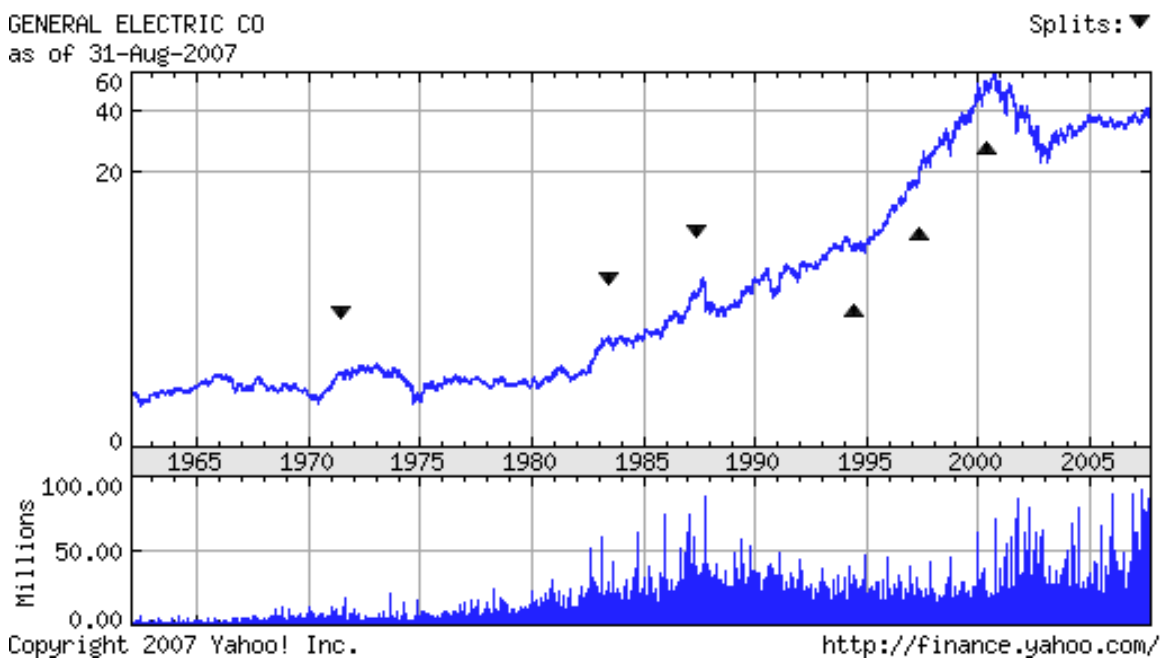


Figure 5.1.6: General Electric Co; 40 Yrs

With a new push towards cleaner and more environmentally friendly technology, “Green Electric” if you will, I felt that General Electric Co. is on track to see stock prices beat those of the late 90’s by the end of the decade. For now, I have left my 260 shares alone, with an end of the week price of \$38.87 per share, for a total profit if sold of

\$109.20. I have not yet sold any GE shares, as I am not confident prices will drop to a low buying range, but rather continue to rise as GE builds momentum.

The next company I traded was Coach Inc. (COH). This stock has taken off since its IPO of just over \$2 in 2000, gaining much momentum in the past few years. This is a very active stock, with a difference in 52 week extremes of \$24.22, to which I also plan on being very active in trading. I purchased 239 shares at \$41.78 on the 28th. The next day prices had fallen to just over \$40 per share before noon. My immediate concerns were soon alleviated as prices returned to a few cents more than my original purchase price by the end of the day. Finally, after seeing a strong increase in price going into Friday, I sold all 239 shares at \$44.93, earning myself \$752.85 in profit. Figure 5.1.7 below is a graph of COH prices for this week.



Figure 5.1.7: Coach Inc; Week 1

This was such a strong growth in only a few days that I am sure this price will fall beginning next week, as it remains right in the middle of the 52 week high and low; and when it does I will be there to purchase more.

Next on my list for the first day of trading on the 28th was a share in the United Parcel Service (UPS). I originally bought 132 shares at \$75.48 shortly after noon on the 28th. After watching this rise and fall over the next two days (only within one dollar), I decided to sell 100 shares the morning of Friday the 31st, at what looked like a peak of \$76.00, for a profit of \$52. As I suspected, later that day the price had again fallen, shown in figure 5.1.8. And, at 75.35, I again purchased 100 shares.

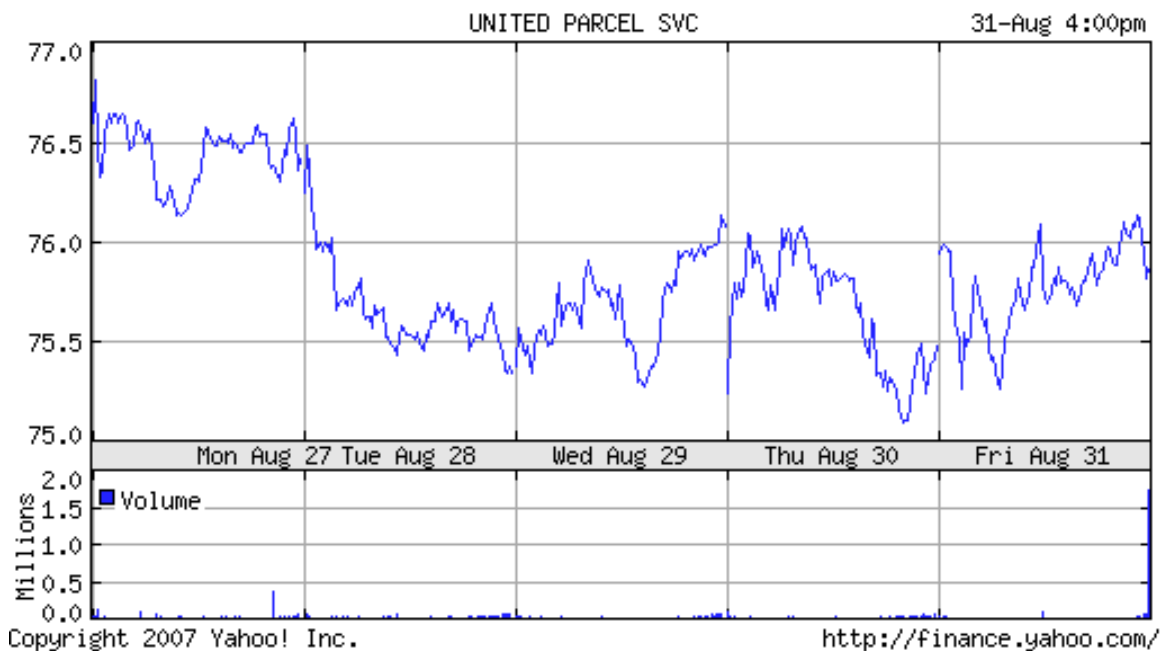


Figure 5.1.8: United Parcel Service Inc; Week 1

This stock closed out the week at \$75.86, which if sold would give a profit of \$51 for those 100 shares, and \$12.16 for my 32 remaining original shares purchased at

\$75.48. I will continue to use my best judgment and monitor this stock, and try to make money buying and selling quickly.

Another company I have taken interest in is Amazon.com (AMZN). This company seems quite innovative in their search to offer customers more from online shopping. Amazon.com announced recently a mid-September deadline for launching its new online music store, which will offer consumers an alternative to Apple's iTunes. I think this will help their shareholders, depending of course on the programs success. So, I have purchased 129 shares at \$77.24, which I am going to closely monitor. Amazon.com's share prices have done well over the past several months, however a 52 week low of \$29.68 is not comforting. Figure 5.1.9 shows the share prices over the past 6 months:



Figure 5.1.9: Amazon.com Inc; Week 1

I then decided to sell my shares in my good fortune as the price per share had risen by \$2.67 to \$79.91 by close on Friday the 31st. Selling 129 shares gave me \$344.43 profit for the week from AMZN. Hopefully this was a good decision and prices will fall early next week.

Finally, I decided to invest the remainder of my money in Abercrombie & Fitch Co. (ANF). With back to school shopping getting into full swing, I expect their business to be doing well. At \$77.60, I purchased 128 shares as my last transaction of the day on the 28th. The next day, this stock closed at \$79.06, and I was not sure if this momentum would continue. So, when they opened the morning of the 30th at \$78.53, I held out until after a peak of almost \$80 per share, and sold all 128 shares at \$79.45. After that prices rose and fell throughout the day, but for the most part they seemed to fall. I then again purchased 128 shares at a low price of \$77.66. Then, early the next morning on the 31st, prices shot up to another high of almost \$80 per share. Once the price per share began to subside I sold all my shares at \$79.59. This was a good decision because the price did not return to this high again, illustrated in the figure 5.1.10 below.



Figure 5.1.10: Abercrombie & Fitch Co; Week 1

With \$483.84 earned this week from ANF, I am pleased but hopeful that next week I can purchase more shares at another low price.

Table 5.1.2 below represents all activity for this week, and concludes this week's summary.

Date	Symbol	Action	Price	# of Shares	Net Proceeds/ Cost/	Profit/Loss	Total Cash	Total Profit
8/28/2007	GE	Buy	38.45	260	(\$9,997.00)		\$40,003.00	
8/28/2007	COH	Buy	41.78	239	(\$9,985.42)		\$30,017.58	
8/28/2007	UPS	Buy	75.48	132	(\$9,963.36)		\$20,054.22	
8/28/2007	AMZN	Buy	77.24	129	(\$9,963.96)		\$10,090.26	
8/28/2007	ANF	Buy	77.6	128	(\$9,932.80)		\$157.46	
8/30/2007	ANF	Sell	79.45	128	\$10,169.60	\$236.80	\$10,327.06	\$236.80
8/30/2007	ANF	Buy	77.66	128	(\$9,940.48)		\$386.58	
8/31/2007	COH	Sell	44.93	239	\$10,738.27	\$752.85	\$11,124.85	\$989.65
8/31/2007	UPS	Sell	76	100	\$7,600	\$52.00	\$18,724.85	\$1,041.65
8/31/2007	UPS	Buy	75.35	100	(\$7,535)		\$11,189.85	
8/31/2007	AMZN	Sell	79.91	129	\$10,308.39	\$344.43	\$21,498.24	\$1,386.08
8/31/2007	ANF	Sell	79.59	128	\$10,187.52	\$247.04	\$47,364.00	\$1,633.12

Table 5.1.2: Portfolio 2; Week 1

5.2 Weekly 2 Transactions

9/3/2007-9/7/2007

5.2.1 Portfolio 1(Eric Sheridan)

This is week two of our simulation, for this week I continued to use the short term swing method of trading. I decided to do short term swing for a second week, because I would have more data to base the methods results off of, but more importantly last week the method proved to be extremely successful. As of last week with my assets I was up a profit of 2757.69. However the week of 9/3/2007 was not as kind as the latter.

I bought shares in ODP, ADM, TIF, and PEIX all on September 6, 2007. Since the date that I have bought them none of them reached a reasonable price worthy of selling them at, in fact the most any of those stocks rose was from 11.53, to 11.77 and was PEIX. In which case I sold the stock and have not bought back in yet. I noticed my ODP stock slipping a point so I sold out at 22.45. I decided to do that because after studying the ODP stock I noticed that it was not very volatile and was taken back after it had dropped a point. I did buy back in to ODP after reading an article in the sunsential.com stating that there was to be promotional sweepstake event run by office depot, I am anticipating high grossing sales in the near future. Here is Figure 5.2.1, the chart for ODP in the past week:

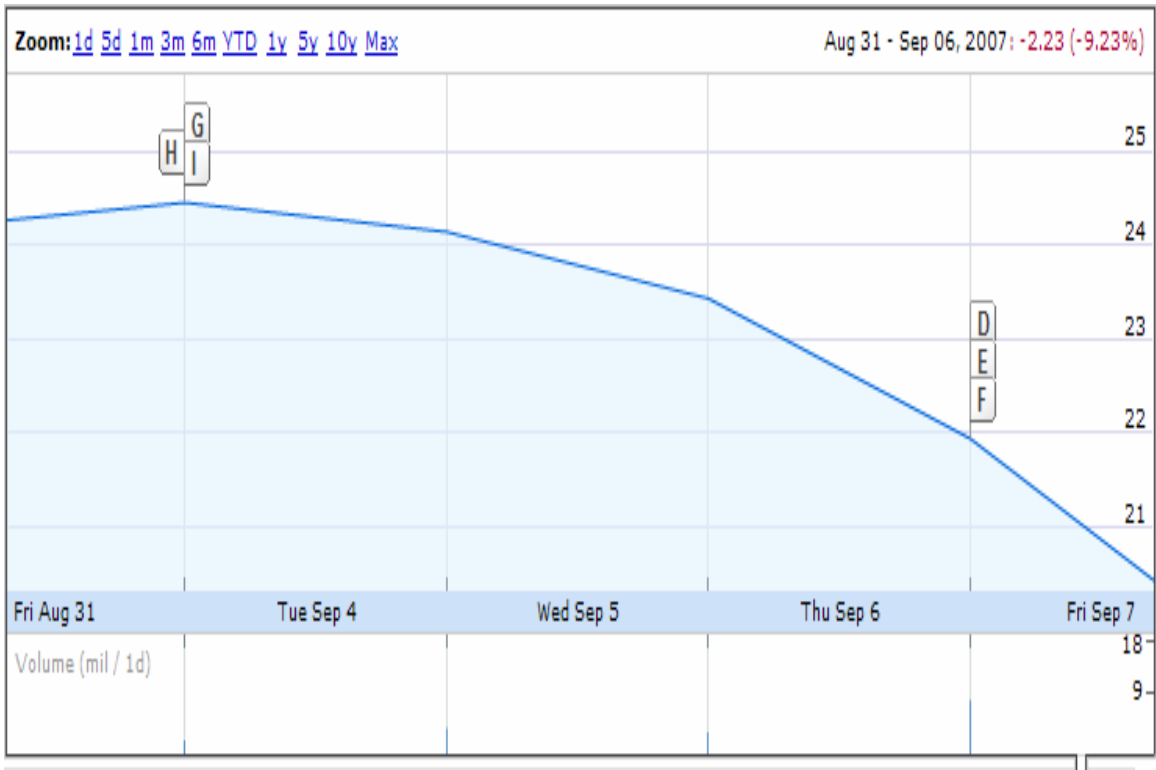


Figure 5.2.1: Office Depot Inc; Week 2

After the 2 point drop for TIF on Tuesday I bought in at 50.53 on Thursday Sept. 6, with the anticipation the stock would maintain one of its typical volatile swings however the stock continued to fall to a price currently of 49.13, I plan to stay strong and ride out the short term ups and down until I gain my ground again. Here is Figure 5.2.2, of the TIF chart for the week:

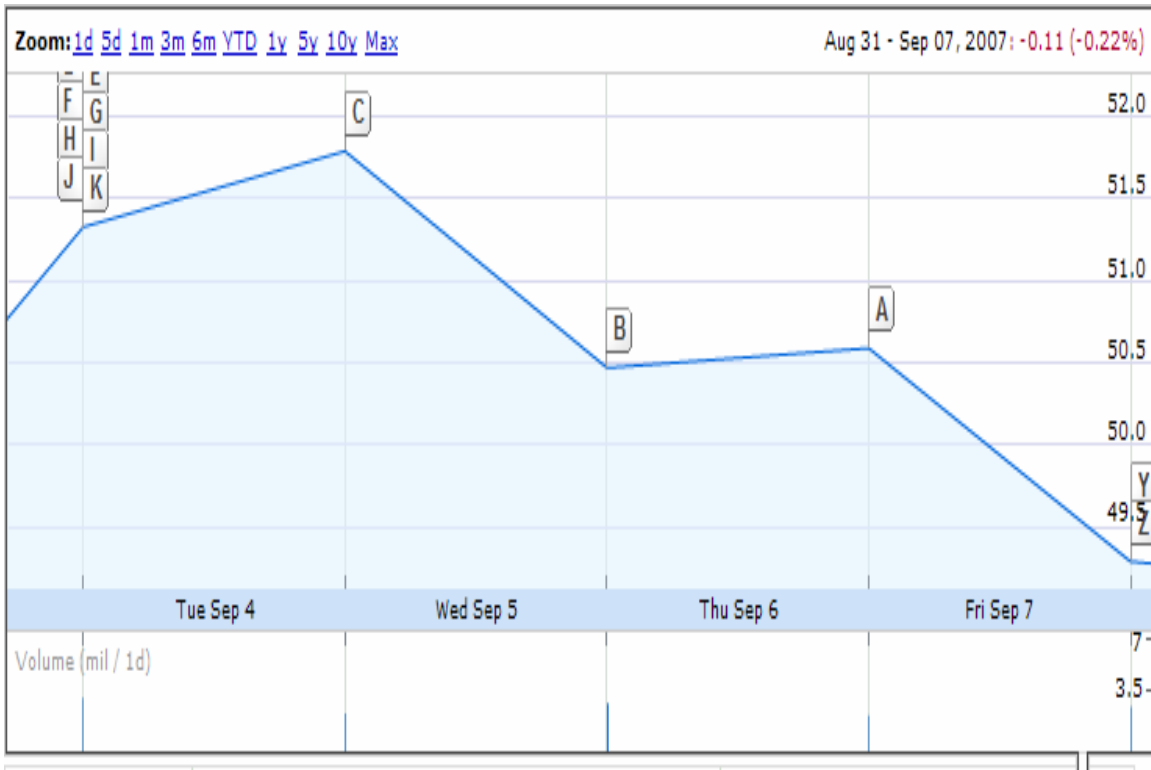


Figure 5.2.2: Tiffany & Co; Week 2

Another stock of mine that has not given me a chance to make a profitable sale, but is not so dangerous as to cut my losses is my ADM stock. I bought in after a 1.5 point dip at 33.02, nevertheless the stock continued to fall half a point where it still remains at 32.54. I remain hard headed and continue to hold onto my UA stock with hopes and prayers that it will rise up, however if it continues to fall, I will accept defeat and sell mid next week focusing on a more manageable stock. Below is Figure 5.2.3, which is an image of the Under Armour chart so that the activity of this stock can be seen:



Figure 5.2.3: Under Armour; Week 2

As for my stocks in my Archer Daniels Midland Co. they dropped one point due to the fact that the VP was exercising options. However I was able to trade before the drop due to an article that I read on CNN.com. This is evidence of the fact that you must be aware of the news of your stocks at all times. On the next page is Figure 5.2.4, which is a graph of the previous week's stock activity.



Figure 5.2.4: Archer Daniels Midland Co.; Week 2

In the case of my PEIX Stock there was no information of news that was to alert me of the up coming volatility of the stock. I just knew to be aware form analyzing previous trends that when this stock goes down it continues that way for a day or so. The same is for when the stock is climbing, and thus I was able to successfully predict when to buy and sell my stock. The constant falling and climbing can be seen in the figure 5.2.5 below:



Figure 5.2.5: Pacific Ethanol Inc.; Week 2

Here is the Table 5.2.1 summarizing all transaction for the second week:

Date	Symbol	Action	Price	# of Shares	NetCost/ Proceeds	Profit/loss	Total Cash	Total Profit
9/4/2007	PEIX	Buy	11.53	865	-\$9,983.45		\$32,946.09	
9/5/2007	ODP	Buy	23.47	425	-\$9,984.75		\$22,961.34	
9/6/2007	ADM	Buy	32.47	321	-\$10,432.87		\$12,528.47	
9/6/2007	ODP	Sell	22.45	425	\$9,541.25	-\$443.50	\$22,485.01	\$2,314.19
9/6/2007	TIF	Buy	50.53	234	-\$11,834.02		\$10,650.99	
9/6/2007	PEIX	Sell	11.77	865	\$10,181.05	\$207.60	\$20,832.04	\$2,521.79

Table 5.2.1: Portfolio 1; Week 2

5.2.2 Portfolio 2 (Seth Bleech)

On Tuesday, September 4, the market closed with General Electric stock worth 39.04 per share. After the close, NBC GE, the media division of GE said that it will sell its television content on Amazon.com's new Unbox service. This announcement came recently after NBC pulled its content from Apple's iTunes¹. The next day, GE shares dropped .4 points immediately, while AMZN shares rose over 2 points by mid-day. Last week I had sold all of my 129 in AMZN at 79.91, and I did not want to buy more at a higher price than that. This was the mistake of the week as Amazon gained much momentum into Wednesday. By the end of the day on Thursday AMZN peak at 86.39 per share, which would have been a tremendous profit had I still owned the original 129 shares. Amazon's success, dubbed one of the top ten "Rocket Stocks" for the week by TheStreet.com², can be seen in Figure 5.2.6 below.



Figure 5.2.6: Amazon.com Inc; Week 2

As Amazon.com prepares to launch its new music store, in what some are calling a “digital music war,” I will watch prices in this company over the next week, and buy if they fall at anytime around 81.00, taking a small loss from the price I last sold at.

Share prices in Abercrombie & Fitch (ANF) have been very volatile recently, which makes them great for the day trader. Figure 5.2.7 shows these changes over the past 6 month period.

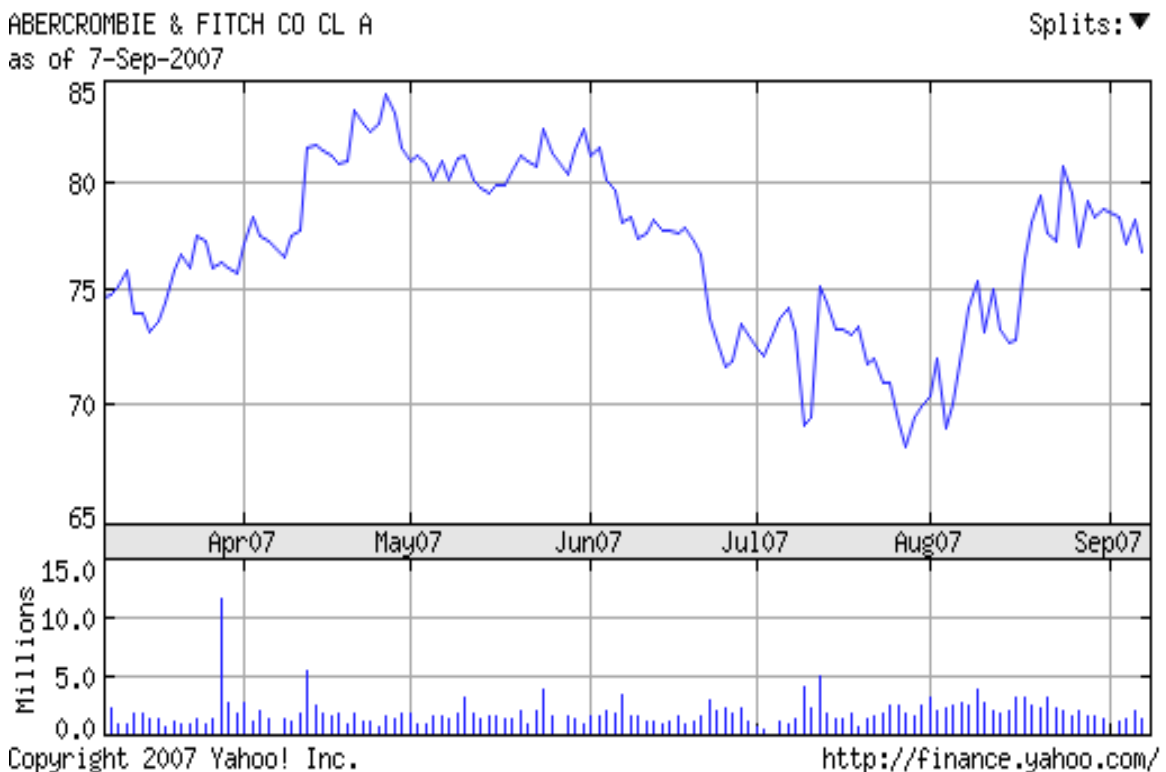


Figure 5.2.7: Abercrombie & Fitch Co; 6 Month

Also, since the company has reported a same-store sales increase of 6% for August, which far surpassed analysts' call for a 2.1% increase, share prices are booming³. Buying 130 shares early on the 5th and selling them the next day earned me \$2.49 per share, which I then bought back when prices fell again to the same range as on the 5th. I plan to follow the same strategy next week and sell these shares when and if they rise again.

On Wednesday, Coach (COH) Chairman and CEO Lew Frankfort said that they expect continued growth, despite the fact that female consumers have been spending less on new clothing over the past few years, as they will continue to use new handbags as a way to inexpensively update their wardrobes. Also, stating that since growth opportunities in European markets are limited, being a developed market with highly matured competitors such as Louis Vutton and Gucci, Coach will push plans to continue growing through increased distribution in North America, Japan and emerging markets, most notably China⁴. For now, however, I own no COH shares since selling them off last week, and have no bought any this week. I will watch next week and perhaps buy again when prices are a bit less.

With not much in the news, the only activity I have this week in the United Parcel Service is a small gain from trading. At the end of last week I bought 100 shares in UPS at 75.35, adding to 32 shares already owned and purchased at 75.48. On Tuesday prices were doing well, and when they started falling I sold out all 132 shares, at 76.17 each, for a total profit of \$104.08. Then on Thursday prices resumed a comfortable 74.50 per share, and I again purchased 132 shares at this price.

Table 5.2.2 below summarizes all activity this week:

Date	Symbol	Action	Price	# of Shares	Net Proceeds	Cost/Profit/Loss	Total Cash	Total Profit
9/4/2007	UPS	Sell	76.17	132	\$10,054.44	\$104.08	\$57,520.08	\$1,737.20
9/5/2007	ANF	Buy	76.68	130	(\$9,968.40)		\$47,551.68	
9/6/2007	GE	Sell	39.34	260	\$10,228.40	\$231.40	\$57,783.08	\$1,968.60
9/6/2007	UPS	Buy	74.5	132	(\$9,835)		\$47,948.08	
9/6/2007	ANF	Sell	79.17	130	\$10,292.10	\$323.70	\$58,755.62	\$2,292.30
9/7/2007	GE	Buy	38.73	260	(\$10,069.80)		\$48,685.82	
9/7/2007	ANF	Buy	76.54	130	(\$9,950.20)		\$38,735.62	

Table 5.2.2: Portfolio 2; Week 2

5.3 Weekly 3 Transactions

9/10/2007 – 9/14/2007

5.3.1 Portfolio 1(Eric Sheridan)

This was our third week in the simulation, and I am beginning to experience the normalcies of the stock market. My first two weeks were very kind to me, as the market was in great condition and the stocks that I chose continued to rise. They were rising and falling in a very predictable manor, and I was able to be successful in my buys and sells. I was not making large amounts of money, but I made a constant amount of around \$200 per stock, omitting Under Armour. The next week was about the same I continued to make money constantly and in each stock I made more than the week before except for ODP. In the case of my Tiffany's stock it went up a total of 6 points, giving me a total profit of \$1,561.78. However my Under Armour stock continued to fall.

In this week a sold my Under Armour stock as I said I would if it did not show promising results. Although the articles by such investors as Cramer from "Mad Money" and the investors at Zack's list are debating that UA is a good buy and should continue to grow I am not seeing the results I predicted for the duration of my simulation. I am however very happy with my TIF stock and have decided to use all of the money I gained from selling my UA stock (\$9,411.45), and I invested it on Wednesday the 12th, and was able to purchase 188 shares at a price of 49.82. As of Friday at the market close the stock price was up and at a price of \$52.19. I am going to watch this stock diligently because this is the stock that I have around half of my money invested. I feel that my instincts and research have told me that this is a good educated decision. Here are Figure's 5.3.1, and 5.3.2, TIF shows the consistent growth, and UA shows a consistent decline.



Figure 5.3.1: Tiffany & Co; Week 3

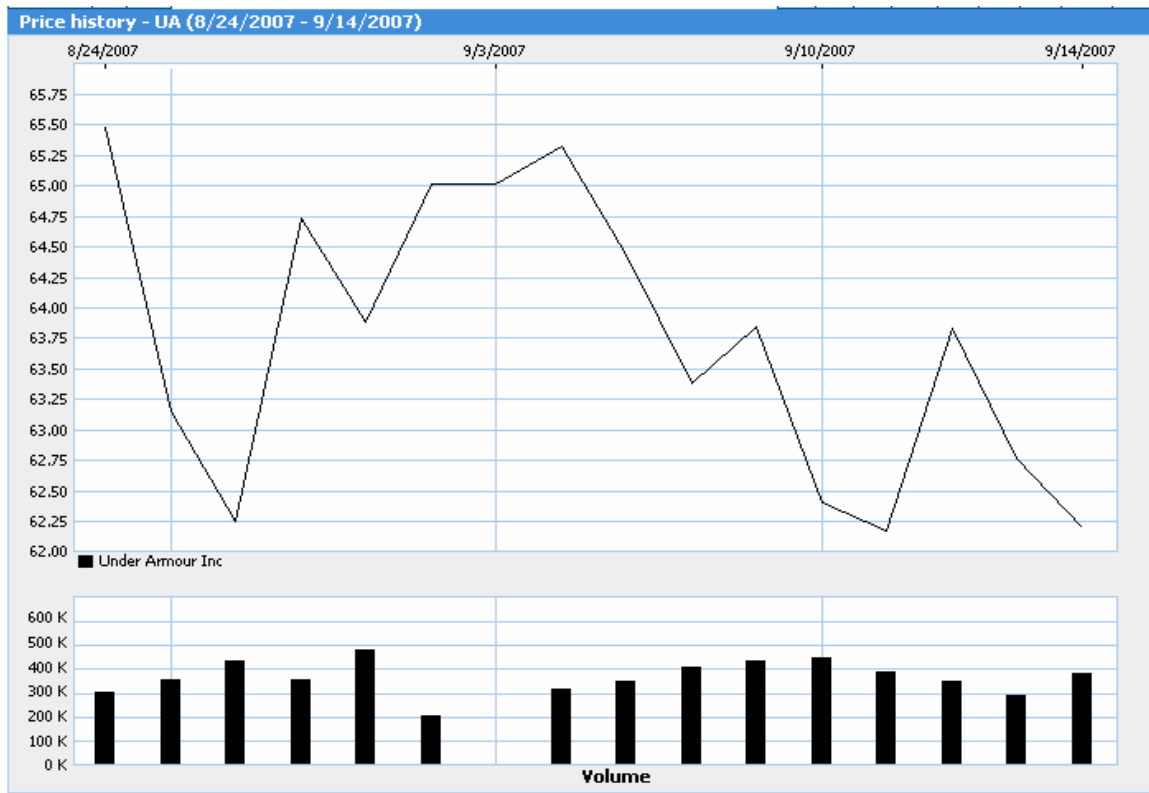


Figure 5.3.2: Under Armour Inc; Week 3

In this third week I have modified my trading method. I am still sticking to the basic principles the method of short term swing trading, however I have decided to use my “gut” instinct. Because of this I feel I have made smart decisions and this is the reason for my success this week. Throughout this simulation this has been the most successful week thus far. As I said I also think that this was the smartest week thus far, as I made great decision. I feel that it was a smart decision to sell my Under Armour stock at a loss, and then invest it into a stock that I have played more successful. I am putting that money to use instead of letting it remain dormant and unproductive.

I am dealing with stocks that are very volatile and I am capitalizing on that. As I carefully watch the market and monitor trends I am able to depict when it is going to drop half a point or so. I am not trying to catch a 3 point swing I am trading for pennies to

dollars and that has made me successful. This is because I am able to purchase large amounts of share, because the stock price is low. Because I own shared in the 400's and 800's even a .5 point swing will result in a \$200-\$400 dollar profit. I able to know when to sell and accept a profit even if it is not in the thousands it still a profit that can be reinvested. With each reinvestment, I am able to buy more shares with my added profit, and thus grossing an even larger profit if I am able to manipulate my funds successfully.

The three stocks which I have successfully made money on can be represented below; it is evident that they are declining. I am still able to make money because I have analyzed the trends, research, and current events. As I said these stocks are very volatile yet I was able to be profitable because of my hybrid method. For further information my trades, transactions, and profits can be seen in Figure 5.3.3-5.3.5 and Table 5.3.1.

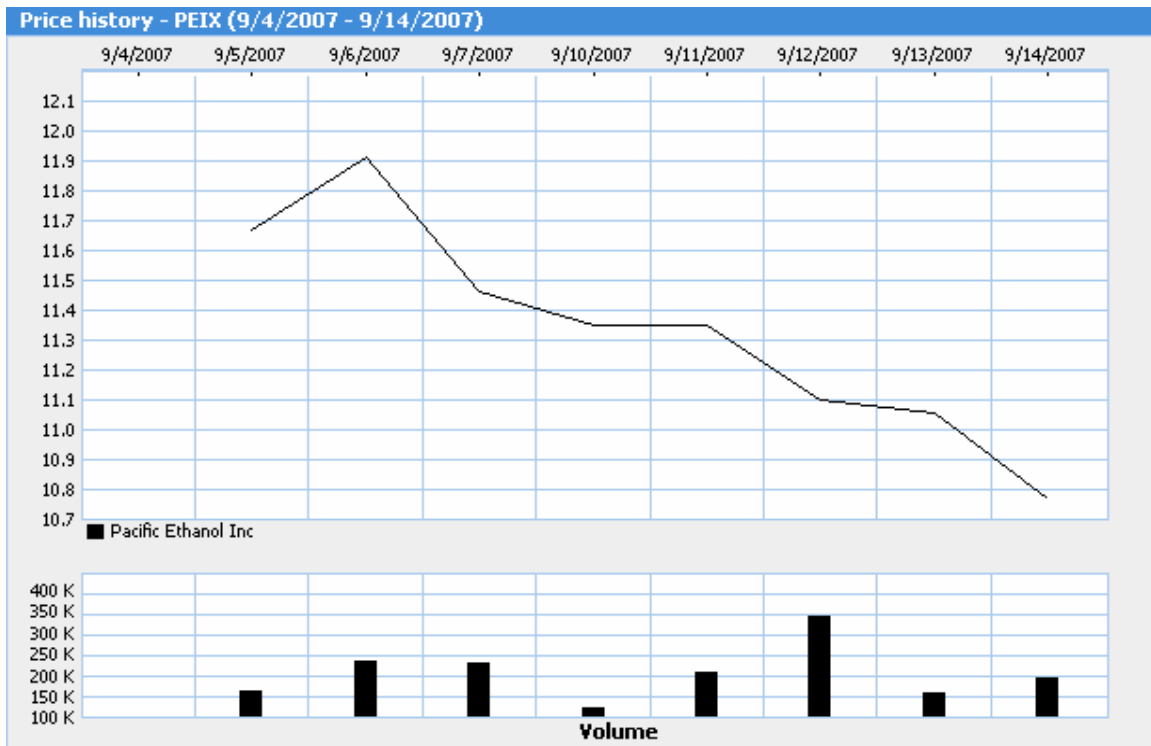


Figure 5.3.3: Pacific Ethanol Inc; Week 3



Figure 5.3.4: Office Depot Inc; Week 3

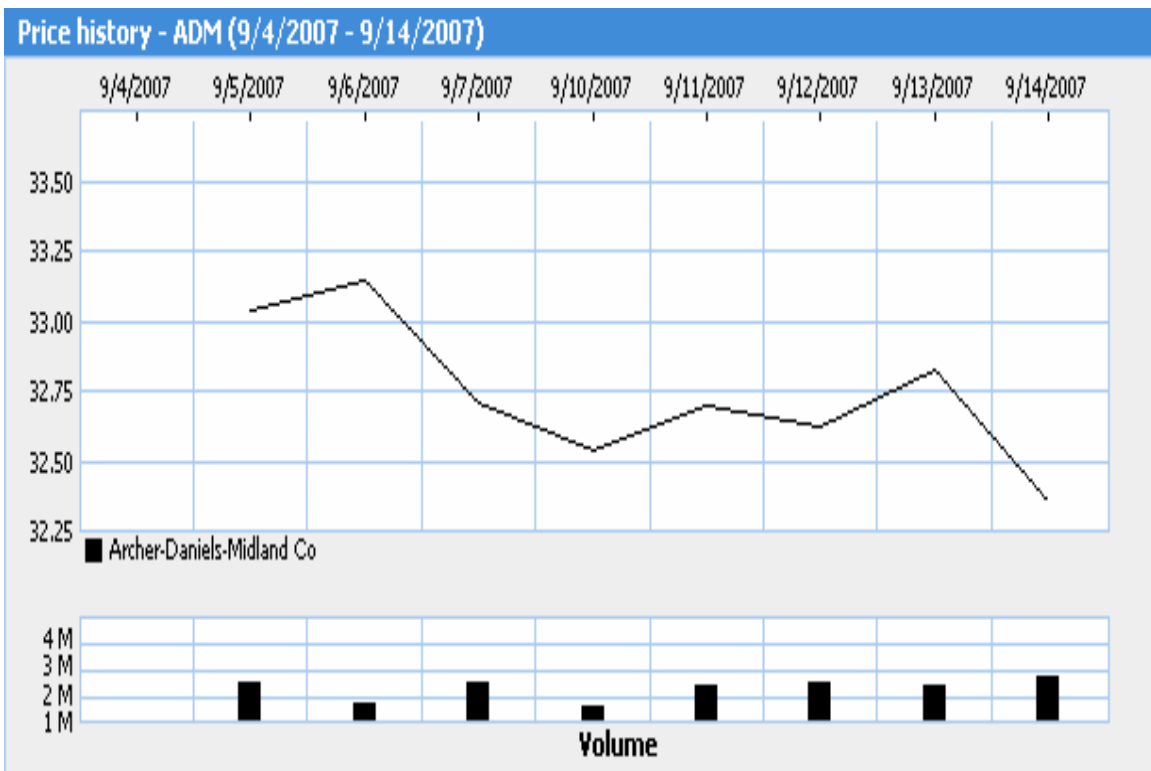


Figure 5.3.5: Archer Daniels Midland Co; Week 3

The Table 5.3.1 below shows all transactions for the third week of simulations.

Date	Symbol	Action	Price	#of Shares	NetCost/ Proceeds	Profit/loss	Total Cash	Total Profit
9/10/2007	ODP	Buy	18.69	530	-\$9,915.70		\$10,916.34	
9/10/2007	PEIX	Buy	11.24	904	-\$10,170.96		\$745.38	
9/10/2007	PEIX	Sell	11.54	904	\$10,432.16	\$271.20	\$11,187.63	\$2,792.99
9/11/2007	ODP	Sell	19.03	530	\$10,085.90	\$180.20	\$21,314.37	\$2,973.19
9/11/2007	ODP	Buy	18.15	556	-\$10,101.40		\$11,212.97	
9/12/2007	UA	Sell	64.55	145	\$9,359.75	-\$578.55	\$20,572.72	\$2,394.64
9/12/2007	TIF	Buy	49.82	188	-\$9,376.16		\$11,196.56	
9/13/2007	ADM	Sell	33.10	321	\$10,625.10	\$202.23	\$21,838.99	\$2,596.87
9/14/2007	PEIX	Buy	10.76	969	-\$10,436.44		\$11,402.55	

Table 5.3.1: Portfolio 1; Week 3

5.3.2 Portfolio 2

On September 5th, 2007, at a presentation of the Goldman Sachs 14th Annual Global Retailing Conference, Coach reinforced their remarkable sales consistency by reporting the completion of their 22nd quarter with at least 20% sales growth and 30% earnings growth. Also, announcing that management is firmly focused on the future, rather than the past, the company is thoroughly focused on improving its opportunities. While the company says it will continue to focus on North America and Japan, it will also look to increase its brand in emerging markets, such as China, whose economy is booming with a growing market and rising incomes⁵. Since their presentation Coach's stock has continued to rise. Early in the week, I purchased 243 shares at 44.01. I was able to purchase more than originally invested with the profit made from this company in my previous two weeks of investing. By the end of the week, Friday the 14th, Coach Shares rose an incredible 4 points, at which point I sold all shares, for a profit of \$972.00. Coach's momentum this week can be seen below in Figure 5.3.6.



Figure 5.3.6: Coach Inc; Week 3

Big news for General Electric this week: the city- owned airport in Austin, Texas, needs to quickly build and manage a three-gate terminal which would allow Mexican Airline VivaAeroBus to make Austin its first US destination. Turning to General Electric Co., who already has freight operations headquarters at the Austin airport, GE can use its own standard models to build cost-affective airline terminals. These terminals will save energy by using more natural light and lower ceilings, while GE will manages them for a

fee, as the airport will not actually own the terminal space. If given final city council approval, this deal would allow GE an opportunity amid a global air travel and shipping market. According to the Airports Council International Returns, as much as 60 percent profit margins can be gained by owning, building and managing airports.

A company spokesman says that VivaAeroBus will offer flights between Austin and Monterrey, at fares possibly as low as \$100. However, GE sees a problem in apparent low-cost carriers and airports that can't raise funding for new terminals. Though GE Infrastructure is the largest and fastest-growing segment in the company, an airline charging less than \$100 per flight is an untested idea, and a risk which GE may not want to manage. Either way, the city council is expected to vote on the new terminal this month⁶.

GE shares crossed over \$40 this week, having last done so in July, and before that not since 2002, I think this company is on track to see another high near \$60, as in 2000, fairly soon. I retain my 260 shares for yet another week. GE prices this week can be seen in Figure 5.3.7 below.

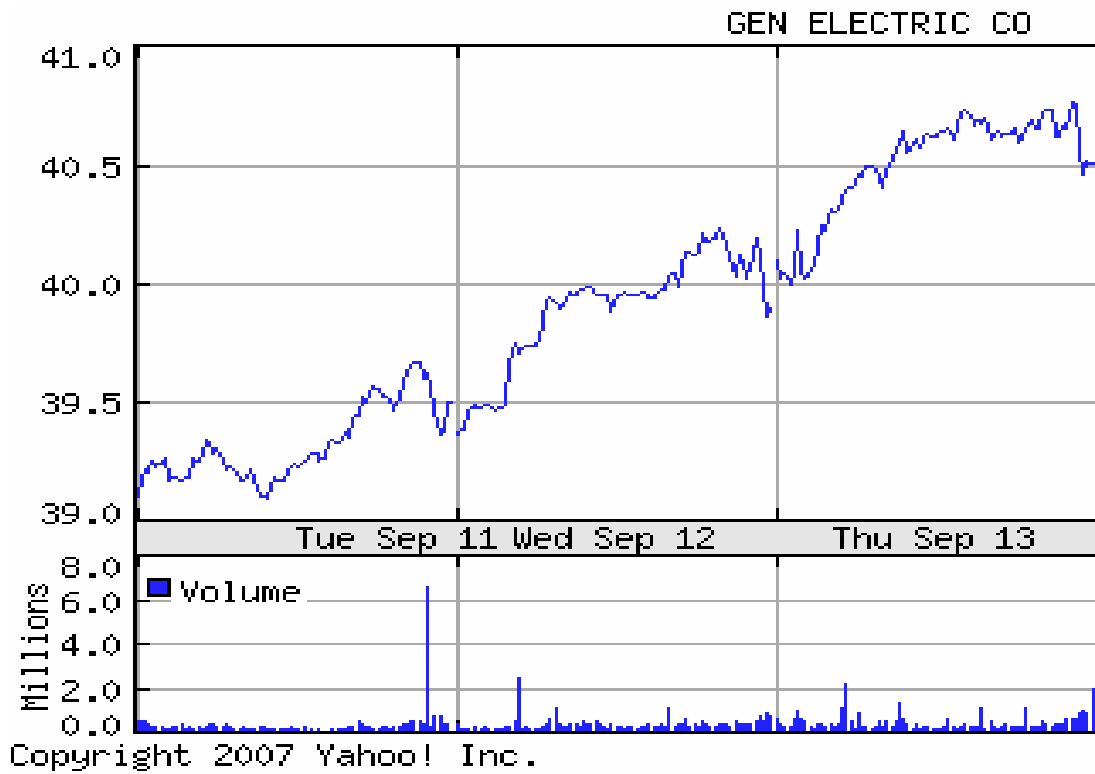


Figure 5.3.7: General Electric Co; Week 3

It can also be seen in Figure 5.3.8 that GE is now trading well above its moving average:



Figure 5.3.8: General Electric Co; Moving Average

On Wednesday the 12th, Amazon.com introduced a contest called the "Amazon Web Services Start-up Challenge," in the hopes that it will attract entrepreneurs for Amazon.com's web services, such as server and storage space in their vast computing network. The contest is targeted at start-ups and software developers eager to get their

newly hatched companies off the ground. I read in an article some time ago, that Amazon.com was trying this innovative idea, by renting out their computing resources (resources that start-ups usually purchase), such as data centers and servers, in an effort to generate revenue from their otherwise idly computer infrastructure. A first prize of \$50,000 cash, \$50,000 in Amazon Web Services and credits, and a special financing offer from Amazon, will be awarded to the person with the best and most promising business idea⁷. This could potentially allow Amazon's new leasing idea to take off, and perhaps change the way all online retailers do business. I don't know how this will impact AMZN prices in the immediate future, and as Figure 5.3.9 shows, they were quite volatile this week.



Figure 5.3.9: Amazon.com Inc; Week 3

Hitting a peak of over \$88, AMZN ended the week at a comforting 87.77. I'm not completely confident prices will continue to rise at this pace, seeing a bullish trend with shares selling well over the moving average as shown in Figure 5.3.10.



Figure 5.3.10: Amazon.com Inc; Moving Average

However, in an effort to learn from my mistake last week, and selling too soon, I will hold all these shares, in the hopes next week prices will continue to rise.

With not much activity this week for United Parcel Service, shares closed the week at only 0.18 points less than I had purchased them at. I fear that this as a short to long term stock is a vain effort to make money, and is not a solid investment. Since going public in 1999, with an IPO around \$70, the company has seen little growth, which can be seen in the Figure 5.3.11 below.



5.3.11: United Parcel Service Inc; Week 3

UPS now has 100 years under the company belt, but it seems the future of package delivery may lie with small, and private, package companies. I will hold these shares until I see prices high enough to sell and make profit; or at least break even.

Abercrombie & Fitch prices this week were pleasing, to say the least. Peaking at just under \$80, I sold my shares, at 79.53 per share on Thursday the 13th, as prices began to decline. This produced a profit of 0.99 cents per share, totaling \$388.70 for this week. The next day, CNN announced that CFO and EVP Michael W. Kramer had sold 7,188 at \$78 each⁸. I am not sure what to make of this news, as Abercrombie & Fitch announced last week that same-store sales increased 6%, far surpassing Wall Street's estimate of 2.1%⁹. Therefore I will be cautious before buying more stock next week.

Table 5.3.2 shows all trades for the week:

Date	Symbol	Action	Price	# of Shares	Net Cost/ Proceeds	Profit/Loss	Total Cash	Total Profit
9/10/2007	AMZN	Buy	82.78	124	(\$10,264.72)		\$28,470.90	
9/11/2007	COH	Buy	44.01	243	(\$10,694.43)		\$17,776.47	
9/13/2007	ANF	Sell	79.53	130	\$10,338.90	\$388.70	\$28,115.37	\$2,681.00
9/14/2007	COH	Sell	48.01	243	\$11,666.43	\$972.00	\$39,781.80	\$3,653.00

Table 5.3.2: Portfolio 2; Week 3

5.4 Weekly 4 Transactions

9/17/2007- 9/21/2007

5.4.1 Portfolio 1 (Eric Sheridan)

This week was our final week of trading in the simulation. This was the best week of trading that I have experienced thus far. Of all of the weeks, this has been the most profitable week. I experienced a total profit of \$3270.06. That profit is more than half the total profit that I have made with all of five of my stocks during this entire simulation. Last week I had sold all of my Under Armour stock and reinvested it this week. This was a crucial decision from me to make this week. This is because with this extra \$9411.45 invested into a stock that I have been more profitable with I had a serious opportunity to make up for the money that I had lost. I decided to take that money and invest it into my TIF stock. This decision came from the point that my TIF stock has been the most profitable thus far, and I have also done a good job in my decisions to buy and sell with that stock. I was able to buy 188 shares for \$49.82 on 9/12 and hold them until I sold them on 9/19. When I sold my TIF stock on 9/19 I sold all of my stocks, which was a total of 422 stocks. By selling those stocks, I made a total profit of \$1755.06. That comprised a total approximately 30% of my net profit from the management of my stocks. This activity of TIF can be seen in the graph below in Figure 5.4.1.



5.4.1: Tiffany & Co; Week 4

On Wednesday September 19, this stock was 1 point under its 52 week high, and I was able to sell at this point and this was a very well educated stock pick. This pick has been rated as “hot stock”, and this has proven to be very true over this four week simulation. I am very pleased with my intuition on when to purchase and when this stock is ripe to sell. Also there is always constant up to date material and news about this stock that allowed me to better judge my decisions about my trades.

The other stock which I did the second best in was my Office Depot stock (ODP). I purchased a total of 556 shares of the stock on 9/11. One of my best revelations of buying stock at low prices is the fact that I am able to afford large quantities of it and then if it only goes up a point or two I am still able to gross a large sum, as I did this

week. Of this and this concept resulted in much greater dividends. This stock gave me some trouble as mid simulation it dropped 3 points because of a lawsuit. However I was able to over come this and in the last week was able to turn over a point and a half gain. I had predicted that back to school would launch this stock, however this stock went though many trials and tribulations while I had purchased it. Nevertheless as you can see by my trading, strategy, and educated decisions one is able to turn over a profit even when a stock is doing poorly. Figure 5.4.2 displays the previous weeks stock graph for Office Depot Inc.



Figure 5.4.2: Office Depot Inc.; Week 4

Another stock that I was still able to make money one despite a positive reaction this simulation was ADM. I was able to be profitable by \$840.05, because I was very conservative and educated on my decisions. As you can see the stock ended up .73 points lower than when it started, and I was till able to turn a fairly reasonable profit. The graph below demonstrates the pattern that the stock followed during this simulation and it can be seen that if manipulated correctly one can turn a profit on such a stock. I enjoy this trading method, because you are more involved and are more educated with your financial decisions. The following is Figure 5.4.3, which a graph of Archer Daniel Midlands Co. previous stock activity.

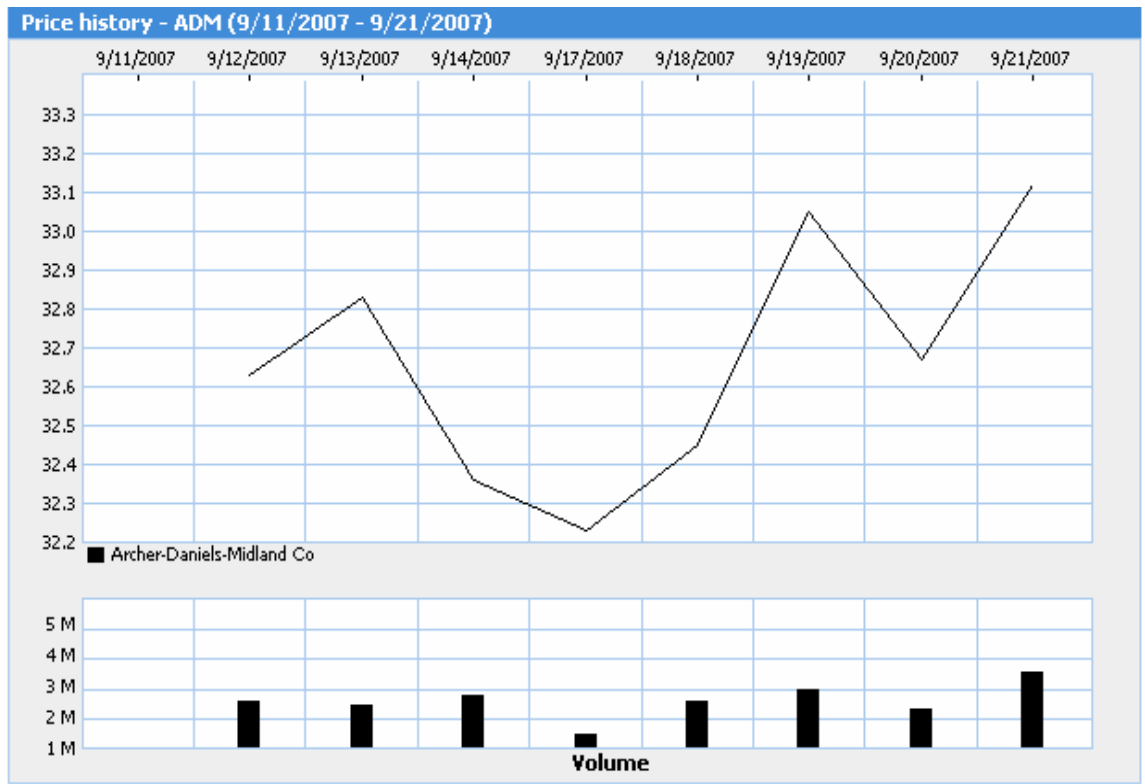


Figure 5.4.3: Archer Daniels Midland Co.; Week 4

The last stock that I traded in this simulation was also another one that did poorly, however as in all the stocks that I dealt with in this simulation, I was able to turn a profit. With PEIX I was able to turn a profit of \$659.00, which was the lowest of all of the stocks I traded except for Under Armour. This was another stock that I had to pay close attention to, because I had purchased a large number of shares. This meant if the company stock did not do well and went down even just a little bit then I would lose a significant amount of money. As seen in the chart below there was much volatility on the average of the graph. That is why this I had to pay very close attention to all information about this stock. By information I mean previous trends, current trends, and all news that is pertinent to PEIX. Below is a Figure 5.4.4, demonstrating the activity of the Pacific Ethanol Co. stock during this simulation.

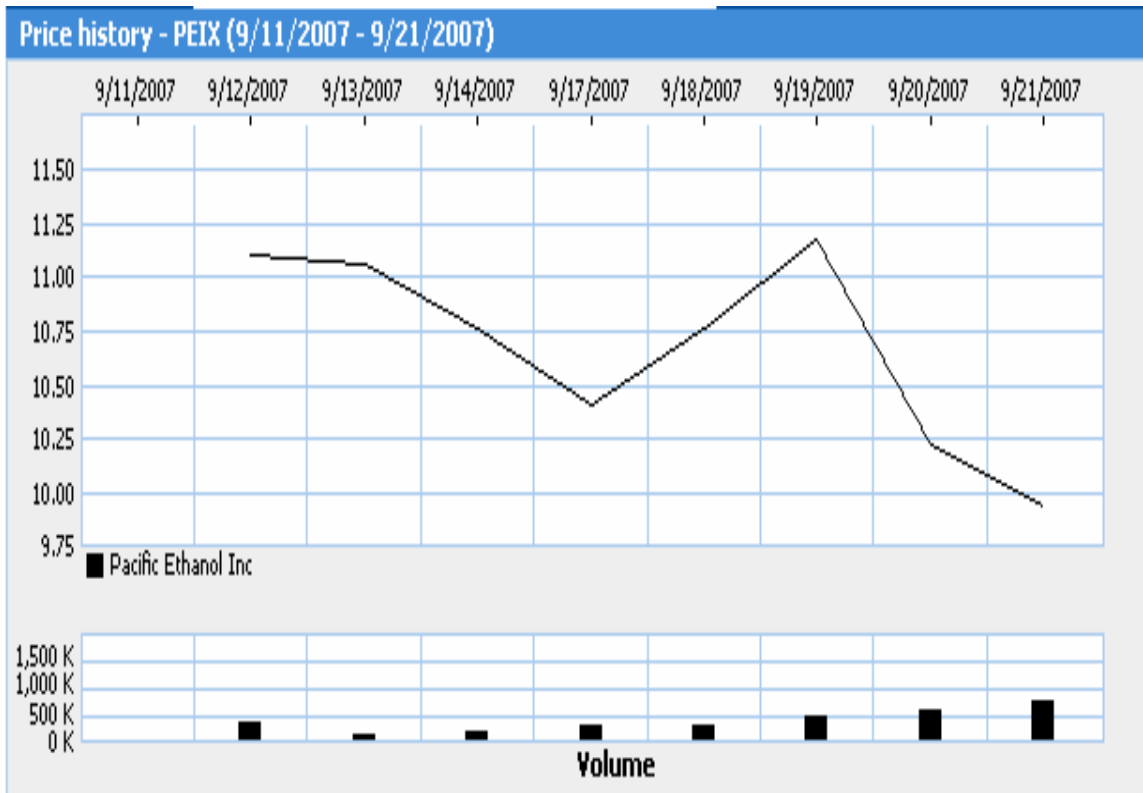


Figure 5.4.4: Pacific Ethanol Inc.; Week 4

Below is a Table 5.4.1, and represents all trades in the final week of Simulation:

Date	Symbol	Action	Price	# of Shares	Net Cost/Proceeds	Profit/loss	Total Cash	Total Profit
9/19/2007	ADM	Sell	33.15	327	\$10,840.05	\$251.60	\$11,708.13	\$2,848.47
9/19/2007	ODP	Sell	20.04	556	\$11,142.24	\$1,040.84	\$22,850.37	\$3,889.31
9/19/2007	TIF	Sell	54.42	234	\$12,734.28	\$900.26	"	\$4,789.57
9/19/2007	TIF	Sell	54.42	188	\$10,230.96	\$854.80	\$45,888.70	\$5,644.37
9/19/2997	PEIX	Sell	11.00	969	\$10,659.00	\$222.56	\$55,606.53	\$5,866.93

Table 5.4.1: Portfolio 1; Week 4

5.4.2 Portfolio 2 (Seth Bleech)

In this week, the final week of simulated trading, two of our companies have reached new 52 week highs: General Electric Co. and Amazon.com. Perhaps by coincidence, these two companies were recently covered in news articles for the decision by GE's media division, NBC Universal, to pull its online content from Apple Inc.'s(AAPL) iTunes; a digital media application, and to reassign content to Amazon.com.

In other news, GE Nuclear Energy announced Wednesday plans to supply equipment and services to upgrade a nuclear power plant in central New York state, owned by Constellation Energy Group Inc., under a \$50 million contract. In an effort to boost the energy output by as much as 158 megawatts (the station currently generates over 1,757 megawatts; enough to power 2 million households), GE will perform engineering work scheduled for completion by 2012²³.

After this news, GE shares peaked at 42.07 per share, for a new 52 week high. Since this is the last week of trading in our simulation, we are looking this week for a good price to sell our stocks. So, when GE share prices began to fall again, we sold all 260 shares at 41.89 per share. Figure 5.4.5 shows activity for GE in this final week.



Figure 5.4.5: General Electric; Week 4

In light of CD sales dropping much more than anticipated, the music industry is looking for new ways to boost sales. It is, therefore, more accepted by the industry that revenue can be generated through digital media, such as the dominant iTunes by Apple. Amazon will launch its own digital media application, Unbox, next week, and it will be interesting to see how Amazon.com share prices respond to this highly anticipated release²⁴. So far, AMZN has done very well, with prices closing at 91.30 for the week, I have sold all 124 shares, for a profit of \$1,056.48. Figure 5.4.6 below shows all activity for AMZN this week.



Figure 5.4.6: Amazon.com Inc.; Week 4

The momentum once enjoyed by Coach Shareholders seems to be dissipating. This week, after a short spike early Wednesday, share prices have been slowly declining, as shown by Figure 5.4.8 below.



Figure 5.4.7: Coach Inc.; Week 4

I have sold all 250 shares this week, on Wednesday the 19th, at 49.36 apiece, for a profit of exactly \$700 on the trade.

UPS announced this week a new energy/money saving strategy, to help offset fuel costs. UPS calls it “Package Flow Technology,” where a dispatch plan is created for every driver working out of the package distribution center. The idea is to ensure that drivers are not over-dispatched and that last minute load changes are minimized. The system also helps drivers find the most direct route possible, with the least amount of left hand turns (essential in heavy traffic areas like New York City)²⁴.

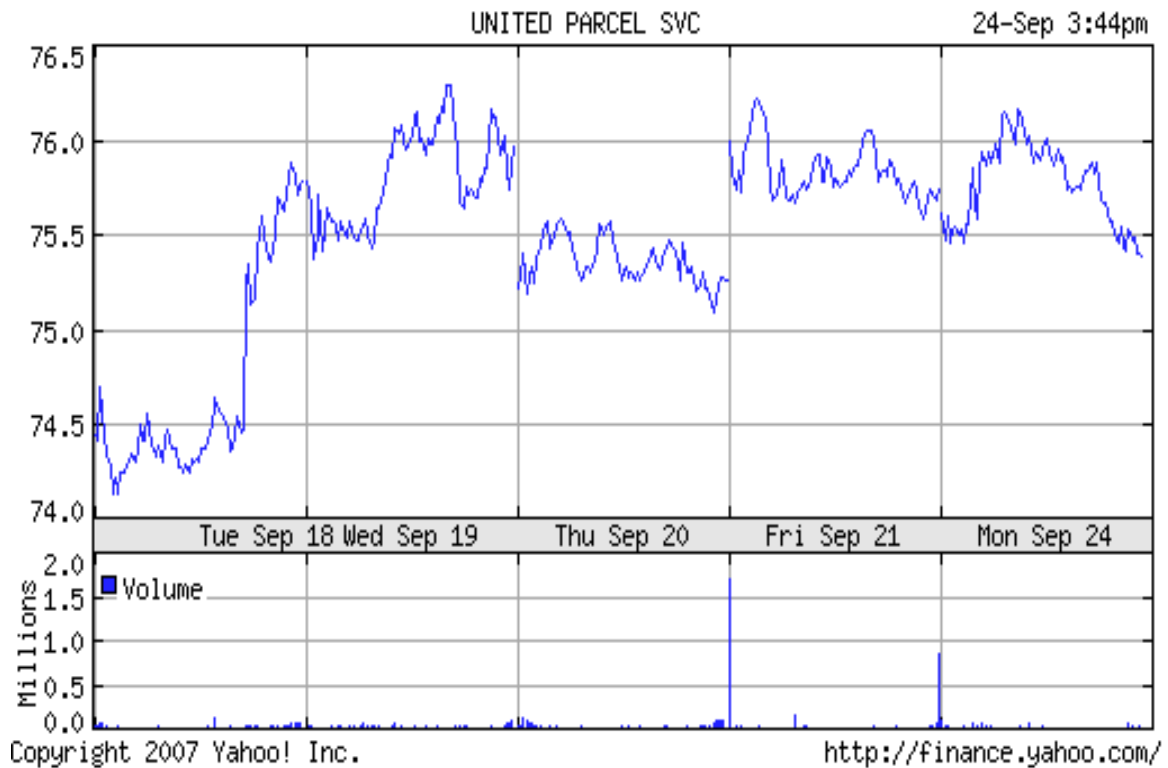


Figure 5.4.8: United Parcel Service Inc.; Week 4

Figure 5.4.8 shows prices for UPS this week. And, by the end of the week, share prices were at a level I was comfortable with selling them at, so at 76.09 per share I sold 132 shares. The profit from this trade was \$209.88, before broker fees.

This week I did not purchase any more shares in Abercrombie & Fitch Co. I sold shares last week at 79.53 per share, and though prices fell slightly beginning the week on Monday the 17th, they quickly began to rise into Tuesday. By Wednesday, prices peaked at 84.01 per share. I was not confident prices would continue to increase much, so I did not buy any shares. My instincts in this case were correct, as after this peak, prices resumed to roughly what I sold at the previous week. Figure 5.4.9 below shows this summary of pricing graphically.



Figure 5.4.9: Abercrombie and Fitch Co.; Week 4

Table 5.4.11 summarizes this week's transaction summary:

Date	Symbol	Action	Price	# of Shares	Net Cost/ Proceeds	Profit/Loss	Total Cash	Total Profit
9/18/2007	COH	Buy	46.56	250	(\$11,640)		\$28,141.80	
9/19/2007	GE	Sell	41.89	260	\$10,891.40	\$821.60	\$39,033.20	\$4,474.60
9/19/2007	COH	Sell	49.36	250	\$12,340.00	\$700.00	\$51,373.20	\$5,174.60
9/21/2007	UPS	Sell	76.09	132	\$10,043.88	\$208.88	\$61,417.08	\$5,383.48
9/21/2007	AMZN	Sell	91.3	124	\$11,321.20	\$1,056.48	\$72,738.28	\$6,439.96

Table 5.4.2: Portfolio 2; Week 4

6. CONCLUSION

This IQP was completed over the course of one term (7 weeks) including 4 weeks of active trading simulation. When beginning this project, the goals we had outlined were simple, but distinct: Through research we hoped to gain detailed knowledge of the economy's workings, as well as gain a certain degree of experience through applying this knowledge into a real investment mechanism. From this it should be noted, when considering the goals set forth, that our success could then best be quantified by a single crucial variable (and ultimately our principle goal): Profitability. And, since we had little if any experience in the stock market, we would have to rely on our research and our experiences throughout the simulation to gain profits.

6.1. Portfolio 1 (Eric Sheridan)

In this section of the paper I will talk about the analysis and conclusion of the methods and practices used in the simulation of portfolio A. In this simulation I picked five companies that I thought would have success between the dates of 8/24/07-9/19/07. I decided to use a short term swing trading method in the beginning. However as the term went on I decided that there is no written method or set of rules that will enable me to be successful in the stock market. There is no guarantee that if you do value investing, or you do day trading that you will be profitable. These methods are simply guidelines and suggestions that if you follow and pay attention to all the information available, then you have a greater chance at being profitable.

I tried to stay faithful to these methods, but in completion of this study I came across a revelation. There is no clear cut method that will guarantee success, the only

tools you have to gain success is the information that you possess, and in this situation information is power. Following the basics for these methods is a great base for investing but is nothing if you do not research everything about your subject. Knowing everything about current and past's news and data of the stock trends is the most resourceful strategy you can apply.

I had to pay extra close attention to my portfolio stocks because unfortunately all of my stocks showed to be very volatile and were also falling as seen below in Figures 6.1.1-5.



Figure 6.1.1: Archer Daniels Midland Co.; Simulation Performance



Figure 6.1.2: Tiffany's & Co.; Simulation Performance



Figure 6.1.3: Pacific Ethanol Inc.; Simulation Performance



Figure 6.1.4: Office Depot Inc.; Simulation Performance



Figure 6.1.5: Under Armour Inc.; Simulation Performance

Thus, current news and previous trends were important to pay attention to. My most important goals were to be successful, and if the method that I was using was not working, I quickly changed or modified what I was doing to what I thought was best. In the end I did tend to trade around twice a week, which is characteristic of a short term swing method. However there was no schedule to my trading, and I traded based on instinct or educated decisions. I have found that the majority of trades were based on this.

I have also found that this is a successful method if followed correctly. After completing this situation I have found that the most successful way to invest is to trade based on information and educated decision gained from that information. There is no secret method that is going to lead to success only information, intuition, and hard work. Figure 6.1.6 is a graph of my Profit vs. Time for this simulation:

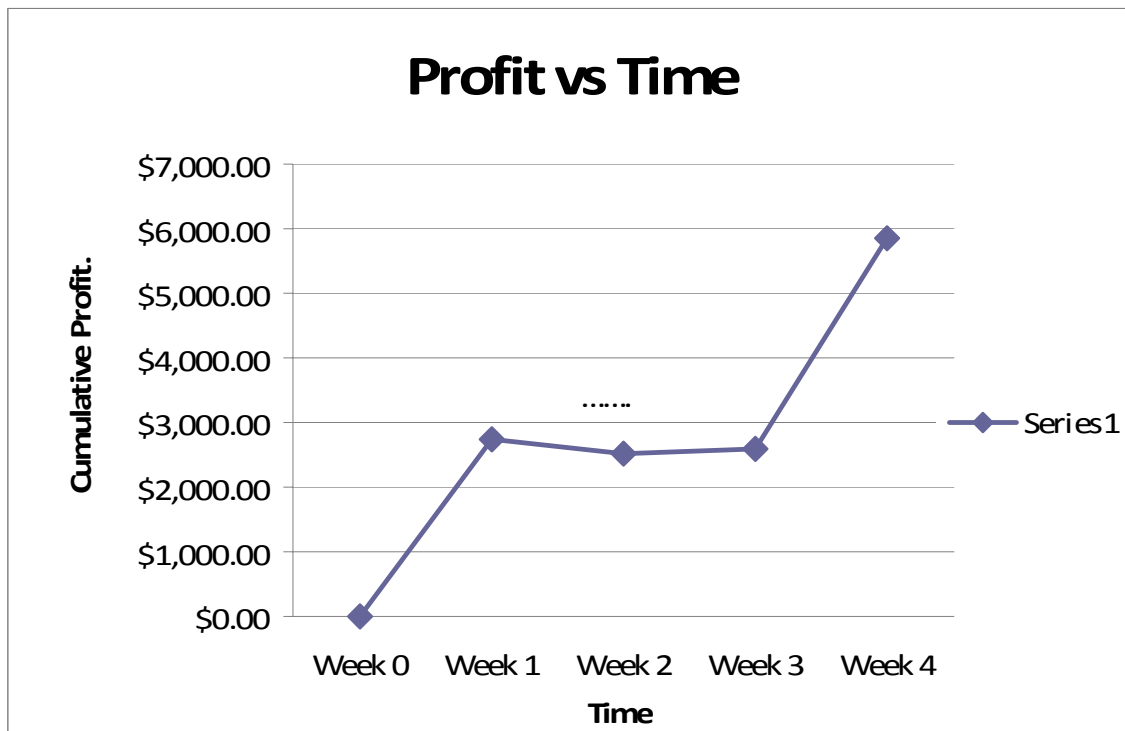


Figure 6.1.6: Profit vs. Time Graph

I also constructed a pie chart (Figure 6.1.7) to show the percent distribution of the profit that I made. From this pie chart it easily can be seen where the majority of my profit came from. One comment is that in the low priced stocks consistently made up an average of 14.7% of my profit and a total of 44%. That is a consistent gain which is something that every investor would like to have. From my investment of \$50,000, was

able to achieve a return of 11.7% with a profit of \$5,866.93. 11.7% is a good return for the shot duration of 4 weeks.

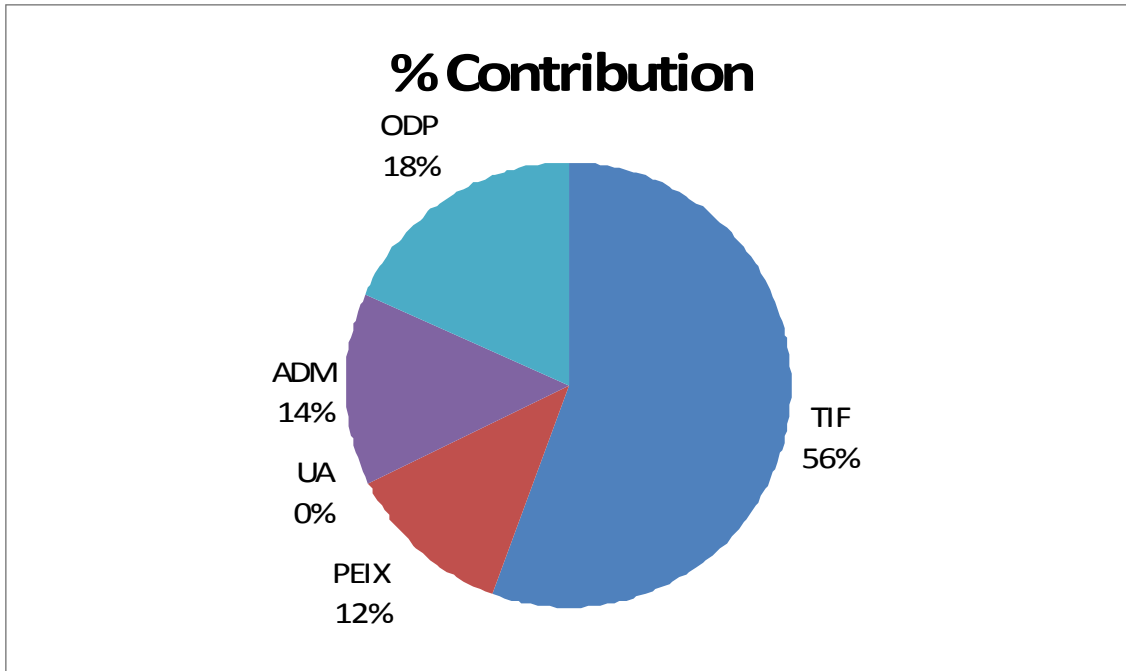


Figure 6.1.7: Percent Company Contribution; Portfolio 1

Table 6.1.1 shows my total transactions of my portfolio for this simulation:

Date	Symbol	Action	Price	# of Shares	Net Cost/ Proceeds	Profit/loss	Total Cash	Total Profit
8/22/2007	ADM	Buy	32.51	306	-\$9,958.06			
8/22/2007	ODP	Buy	23.80	419	-\$9,982.20			
8/22/2007	UA	Buy	68.54	145	-\$9,948.30			
8/22/2007	TIF	Buy	44.63	223	-\$9,962.49			
8/22/2007	PEIX	Buy	11.85	843	-\$9,999.55		\$149.40	
8/23/2007	TIF	Sell	46.11	223	\$10,282.53	\$330.04	\$10,469.44	\$330.04
8/23/2007	ODP	Sell	24.14	419	\$10,114.66	\$142.46	\$20,601.90	\$472.50
8/23/2007	PEIX	Sell	11.88	843	\$10,014.84	\$25.29	\$30,616.74	\$497.79
8/23/2007	ADM	Sell	33.03	306	\$10,107.18	\$159.18	\$40,765.86	\$656.97
8/24/2007	ADM	Buy	32.87	308	-\$10,133.96		\$30,631.90	
8/24/2007	ODP	Buy	24.00	421	-\$10,114.00		\$20,517.90	
8/24/2007	TIF	Buy	44.98	229	-\$10,310.42		\$10,207.48	
8/30/2007	ODP	Sell	24.66	421	\$10,381.86	\$277.86	\$20,607.52	\$884.83
8/31/2007	TIF	Sell	51.80	229	\$11,862.20	\$1,561.78	\$32,479.34	\$2,446.61
8/31/2007	ADM	Sold	33.88	308	\$10,435.04	\$311.08	\$42,929.54	\$2,757.69
9/4/2007	PEIX	Buy	11.53	865	-\$9,983.45		\$32,946.09	
9/5/2007	ODP	Buy	23.47	425	-\$9,984.75		\$22,961.34	
9/6/2007	ADM	Buy	32.47	321	-\$10,432.87		\$12,528.47	
9/6/2007	ODP	Sell	22.45	425	\$9,541.25	-\$443.50	\$22,485.01	\$2,314.19
9/6/2007	TIF	Buy	50.53	234	-\$11,834.02		\$10,650.99	
9/6/2007	PEIX	Sell	11.77	865	\$10,181.05	\$207.60	\$20,832.04	\$2,521.79
9/10/2007	ODP	Buy	18.69	530	-\$9,915.70		\$10,916.34	
9/10/2007	PEIX	Buy	11.24	904	-\$10,170.96		\$745.38	
9/10/2007	PEIX	Sell	11.54	904	\$10,432.16	\$271.20	\$11,187.63	\$2,792.99
9/11/2007	ODP	Sell	19.03	530	\$10,085.90	\$180.20	\$21,314.37	\$2,973.19
9/11/2007	ODP	Buy	18.15	556	-\$10,101.40		\$11,212.97	
9/12/2007	UA	Sell	64.55	145	\$9,359.75	-\$578.55	\$20,572.72	\$2,394.64
9/12/2007	TIF	Buy	49.82	188	-\$9,376.16		\$11,196.56	
9/13/2007	ADM	Sell	33.10	321	\$10,625.10	\$202.23	\$21,838.99	\$2,596.87
9/14/2007	PEIX	Buy	10.76	969	-\$10,436.44		\$11,402.55	
9/17/2007	ADM	Buy	32.35	327	-\$10,588.45		\$814.10	
9/19/2007	ADM	Sell	33.15	327	\$10,840.05	\$251.60	\$11,708.13	\$2,848.47
9/19/2007	ODP	Sell	20.04	556	\$11,142.24	\$1,040.84	\$22,850.37	\$3,889.31
9/19/2007	TIF	Sell	54.42	234	\$12,734.28	\$900.26	"	\$4,789.57
9/19/2007	TIF	Sell	54.42	188	\$10,230.96	\$854.80	\$45,888.70	\$5,644.37
9/19/2007	PEIX	Sell	11.00	969	\$10,659.00	\$222.56	\$55,606.53	\$5,866.93

Table 6.1.1: Portfolio 1; Final Table

6.2. Portfolio 2 (Seth Bleech)

After a fair amount of research into the success, growth, and inner workings of numerous different companies, my search was narrowed down to just five picks. The next step was to determine an appropriate investment strategy. While I wanted to try many types of strategies it was important to pick ones that were appropriate to my companies, as well as the project in general, keeping profit as the main objective. And, as previously stated in section 3.6, swing trading was the best match for the purposes of this simulation.

Overall, this portfolio did very well. Figure 6.2.1 below is a graph of the portfolio's earnings after each week:

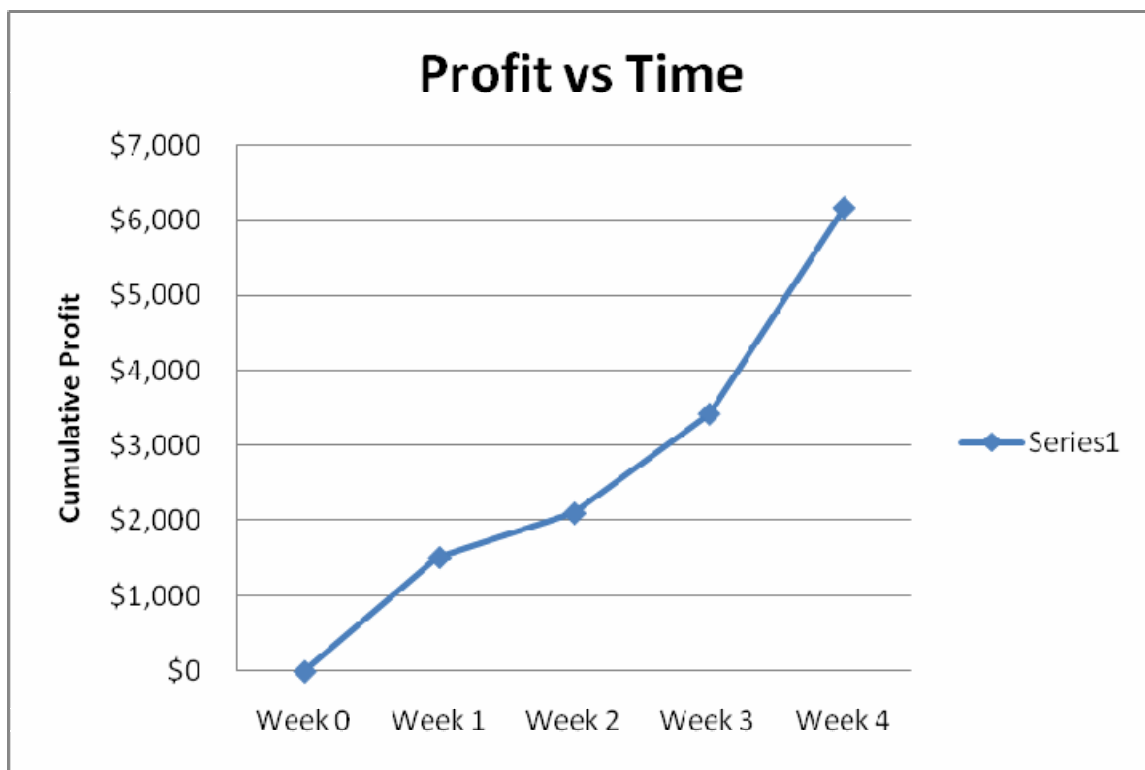


Figure 6.2.1: Profit vs Time; Portfolio 2

So, swing trading was definitely a good choice, however not all the companies were good matches for the method. More specifically, General Electric Co is a company better suited for the buy and hold investor, for a few reasons: First, the company has done much “house cleaning” with management in the company over the past 5 years. Many investors lost faith in the conglomerate giant after a new CEO took over in 2000. Now, GE seems to be back on track and is making big moves in the world today. It can be seen in the Figure 6.2.2 that GE is making a come-back to see prices of that in 2000 within the next few years.

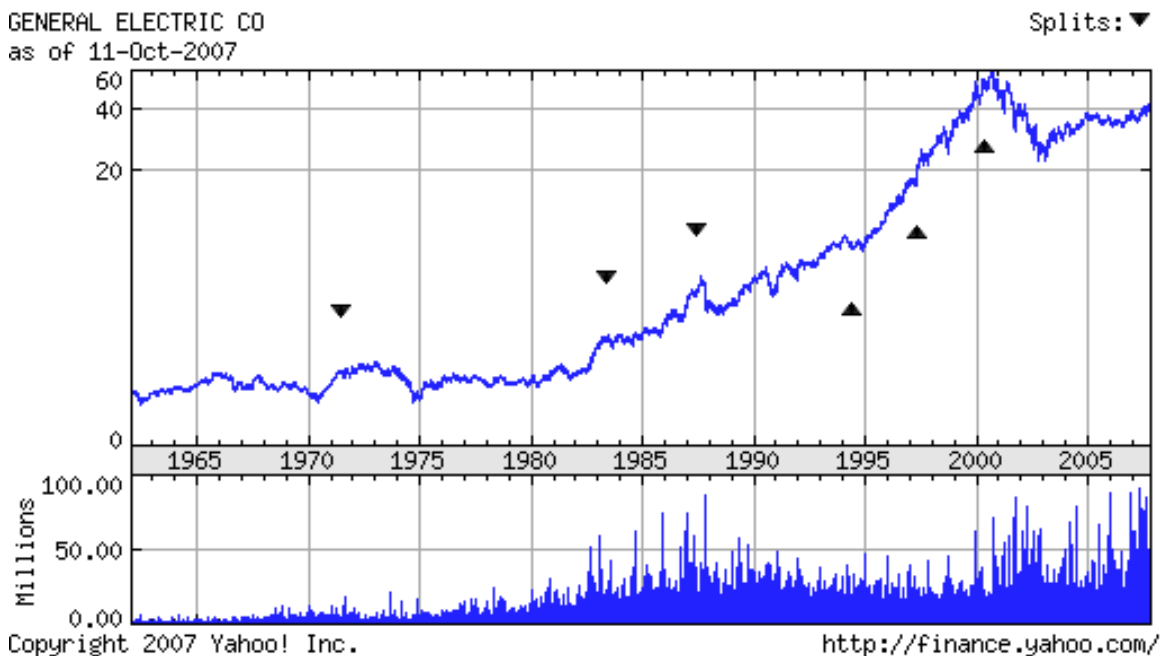


Figure 6.2.2: General Electric Co.; 40 Yrs.

Aside from swing trading being the most appropriate method for these portfolios, it was equally important to pick the right companies. Using current and past news stories, including reviews from different publications such as Businessweek, I was able to pick some very successful companies. Two of my five picks were big winners: Amazon.com and Coach Inc. When I originally got into Amazon.com, stocks were trading at around

\$77 per share. At the end of four weeks, shares had rocketed to over \$91 per share; a new 52 week high. Coach did very well also, while prices did not increase in value as much as AMZN, it was volatile enough that with only two extra trades (6 trades total) Coach was able to earn 12% more profit for the portfolio than AMZN. Profit for each company contributing to the profit of the portfolio can be seen in Figure 6.2.3:

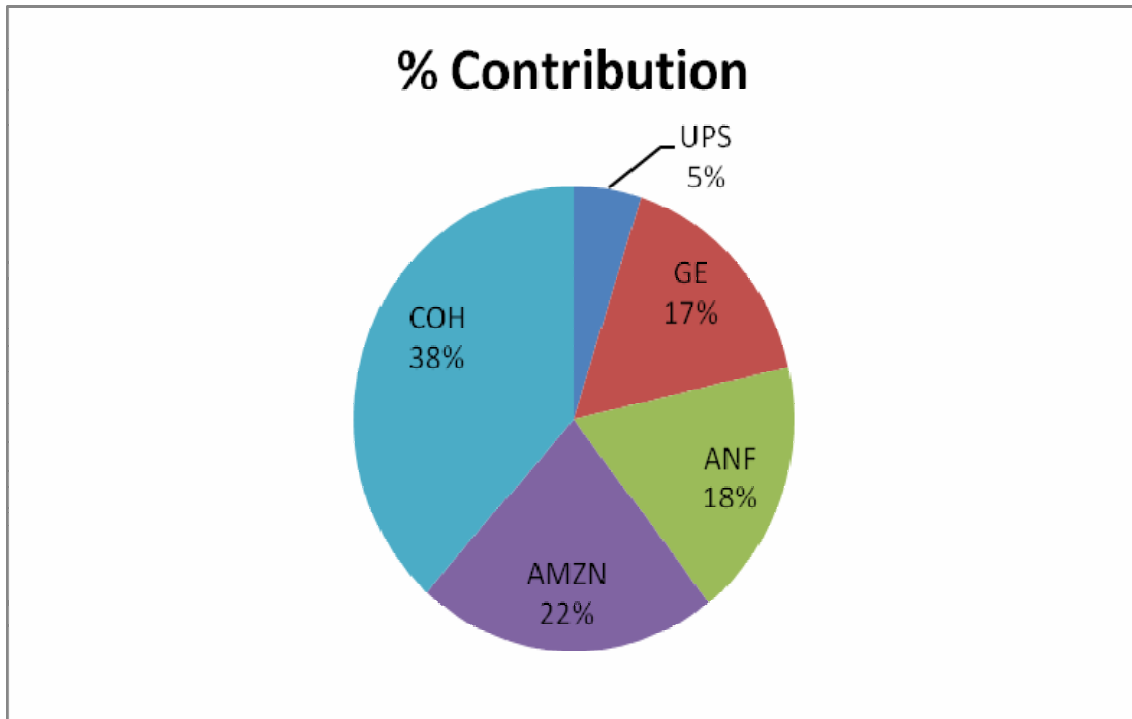


Figure 6.2.3: Percent Company Contribution; Portfolio 2

In the end, for my original investment of just under \$50,000, I was able to achieve a 12.9% return, averaging about \$1,600 per week. From these numbers I feel this portfolio has achieved the goal set forth in this project.

Table 6.2.1 is cumulative of all trades during this simulation:

Date	Symbol	Action	Price	# of Shares	Net Cost/Proceeds	Profit/Loss	Total Cash	Total Profit
8/28/2007	GE	Buy	38.45	260	(\$9,997.00)		\$40,003.00	
8/28/2007	COH	Buy	41.78	239	(\$9,985.42)		\$30,017.58	
8/28/2007	UPS	Buy	75.48	132	(\$9,963.36)		\$20,054.22	
8/28/2007	AMZN	Buy	77.24	129	(\$9,963.96)		\$10,090.26	
8/28/2007	ANF	Buy	77.6	128	(\$9,932.80)		\$157.46	
8/30/2007	ANF	Sell	79.45	128	\$10,169.60	\$236.80	\$10,327.06	\$236.80
8/30/2007	ANF	Buy	77.66	128	(\$9,940.48)		\$386.58	
8/31/2007	COH	Sell	44.93	239	\$10,738.27	\$752.85	\$11,124.85	\$989.65
8/31/2007	UPS	Sell	76	100	\$7,600	\$52.00	\$18,724.85	\$1,041.65
8/31/2007	UPS	Buy	75.35	100	(\$7,535)		\$11,189.85	
8/31/2007	AMZN	Sell	79.91	129	\$10,308.39	\$344.43	\$21,498.24	\$1,386.08
8/31/2007	ANF	Sell	79.59	128	\$10,187.52	\$247.04	\$47,364.00	\$1,633.12
9/4/2007	UPS	Sell	76.17	132	\$10,054.44	\$104.08	\$57,520.08	\$1,737.20
9/5/2007	ANF	Buy	76.68	130	(\$9,968.40)		\$47,551.68	
9/6/2007	GE	Sell	39.34	260	\$10,228.40	\$231.40	\$57,783.08	\$1,968.60
9/6/2007	UPS	Buy	74.5	132	(\$9,835)		\$47,948.08	
9/6/2007	ANF	Sell	79.17	130	\$10,292.10	\$323.70	\$58,755.62	\$2,292.30
9/7/2007	GE	Buy	38.73	260	(\$10,069.80)		\$48,685.82	
9/7/2007	ANF	Buy	76.54	130	(\$9,950.20)		\$38,735.62	
9/10/2007	AMZN	Buy	82.78	124	(\$10,264.72)		\$28,470.90	
9/11/2007	COH	Buy	44.01	243	(\$10,694.43)		\$17,776.47	
9/13/2007	ANF	Sell	79.53	130	\$10,338.90	\$388.70	\$28,115.37	\$2,681.00
9/14/2007	COH	Sell	48.01	243	\$11,666.43	\$972.00	\$39,781.80	\$3,653.00
9/18/2007	COH	Buy	46.56	250	(\$11,640)		\$28,141.80	
9/19/2007	GE	Sell	41.89	260	\$10,891.40	\$821.60	\$39,033.20	\$4,474.60
9/19/2007	COH	Sell	49.36	250	\$12,340.00	\$700.00	\$51,373.20	\$5,174.60
9/21/2007	UPS	Sell	76.09	132	\$10,043.88	\$208.88	\$61,417.08	\$5,383.48
9/21/2007	AMZN	Sell	91.3	124	\$11,321.20	\$1,056.48	\$72,738.28	\$6,439.96

Table 6.2.1: Portfolio 2 Final Table.

Total Trades: 28; **Profit After Fees: \$6,159.96**; Total Brokerage Fees: 8 x \$10 = \$280.

6.3 Comparison

In this segment of the paper we will compare our two portfolios. We will also compare the methods that we used and strategies that we practiced during this simulation. However, we felt that following a Swing method was our best route for making profits. Therefore, Portfolio's 1 and 2 were very similar in their methods, trading at least once a

week and no more than 2 times a week with each stock. However, as time went on in the simulation each portfolio was traded on educated decisions based on current events that we thought would affect our stocks. At this point Portfolio 1 sold losing investments and placed money in better performing companies, while portfolio 2 had no losing investments. This was a good decision for portfolio 1, because the losing invest of the Under Armour company dropped overall profit for that portfolio going into week 2, which set profits behind those of portfolio 2. Relocating this money drove profit back up to catch up with portfolio 2, and this can be seen visually in 6.3.1:

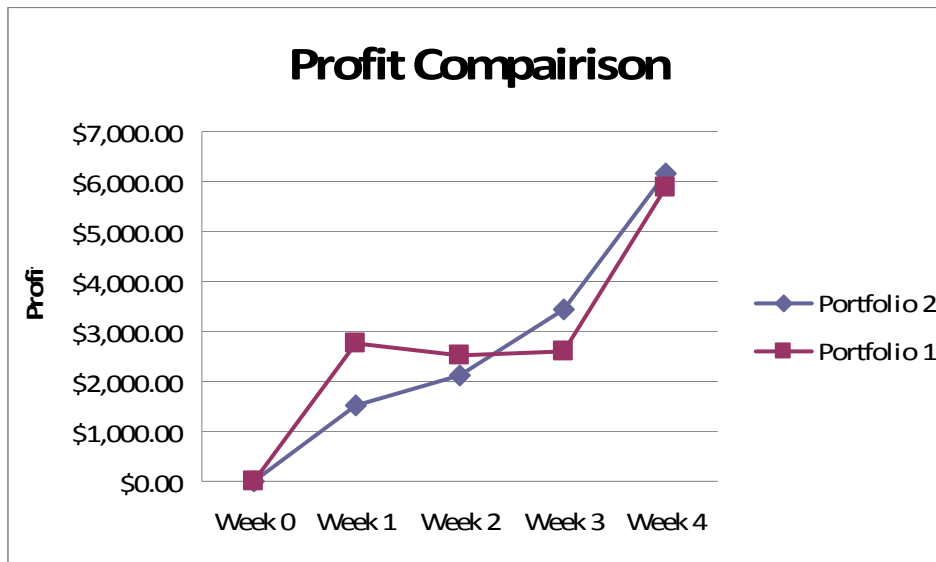


Figure 6.3.1: Final Profit Comparison; Portfolio 1 and 2

Still actively trading, both portfolios traded at least once and still no more than two times a week with each stock. Because portfolio 1 and 2 were so involved with their stocks and the current events that surrounded them we were able to make very successful educated decisions about our stocks activity. Portfolio 1 ended up with a total profit of \$5,866.93, which is very close to Portfolio 2's profit of \$6,159.96.

In the end it is apparent that all trades in Portfolios 1 and 2 fall within the characteristics of a swing trading method. However, both portfolios' trades were also based on educated decisions and evaluations of information provided by the media for each company, and constant monitoring of such, which we believe to be the main reason that these portfolios were so successful. This can be quantified by the similarity in each portfolio's profit, where out of a total of 10 different companies, only 1 did not perform. From this, we believe that the skill of knowing how to successfully trade in the stock market is governed not only by knowing when to trade, but also in knowing "what" to trade, as 90% of our stock picks were correctly evaluated as gainers. Thus, meeting the goal of this simulation, we used the knowledge we gained to lead our investments to success and, in turn, make a profit.

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32. Swing Trading

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33. Trend Following

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34. Value Investing

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35. Buy and Hold

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