

## **“SIMULATED TRADING” ASSIGNMENT**

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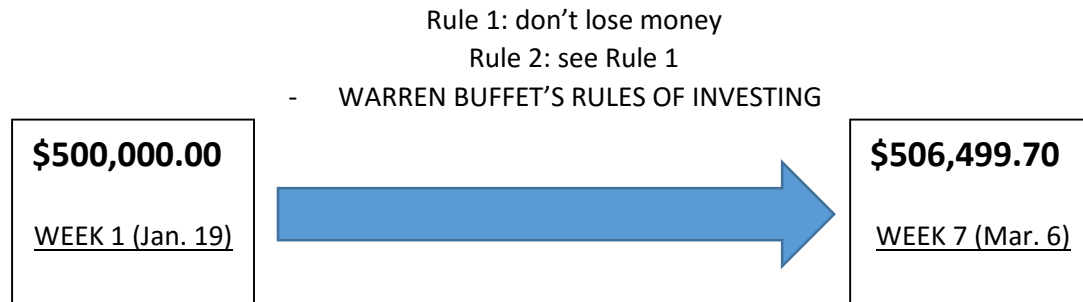
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For the purpose of this assignment the portfolio discussed in the following pages was generated using the Investopedia Simulator and by playing the “Canadian Game”. The latter in which only securities from Canadian exchanges could have been traded. The opening account value is of half a million dollars (CAD) during simulation, and the user managed to increase its portfolio value by \$6.5K CAD after the seven weeks started January 19<sup>th</sup> and ending on March 6<sup>th</sup> of the present year. Whenever the report mentions “the user” it refers to Jorge Fuentes (report’s author). All trades were made at market price (value).

### TRADING LOG

#### WEEK 1 (Jan.19 – Jan.23):

Let us begin by providing an appropriate analysis for the first position taken in the portfolio during the previously mentioned simulation. On Monday January 19<sup>th</sup>, the user bought (with his initial account value of \$500K CAD) exactly 29500 units of an exchange-traded-fund called “Horizons Enhanced Income Energy ETF”, ticker symbol **HEE.TO**, at the market price of \$4.16. On that Monday, the price of this ETF had actually gone up from its previous close (the previous Friday), which had been of \$3.98. Meaning that its value increased by \$0.18 (+4.5%). The total investment (with commission of \$19.95) for this position was of \$122,739.95. The reasons behind this purchase were: unit holders get exposure to the performance of an equal weighted portfolio of Canadian companies that are involved in the crude oil and natural gas industry (e.g., Enbridge, Cenovus, Husky, Suncor etc.), and also receive monthly distributions of dividend and call option income.<sup>1</sup>

The user later divested from this position and sold the units at a market value of \$4.18 on the Friday of that week, Jan. 23<sup>rd</sup>, for a total sale of \$123,280.05 (less a \$29.95 commission included for the “sell”). The capital gain is better perceived in the following summary table:

<u>WEEK 1</u>	STOCK	QUANTITY	DATE	PRICE	TOTAL (w/ fees)
BOUGHT	HEE.TO	29500	January 19 <sup>th</sup>	\$4.16	\$122,739.95
SOLD	HEE.TO	29500	January 23 <sup>rd</sup>	\$4.18	\$123,280.05
PROFIT/ LOSS					+ \$540.10

*Table 1: Summary Week 1*

<sup>1</sup> Investment Objective of HEE, as retrieved from: <http://www.horizonsetfs.com/pub/en/Etfs/?etf=HEE&lang=en>

The net ending account value rose to **\$500,540.10**, this value is after fees. Although the capital gain may seem small after such a large investment, it was rather pre-cautious to divest from this sector after oil prices had closed at \$46.31 per barrel<sup>2</sup>.

### **WEEK 2 (Jan.26 – Jan.31):**

In week two, after the account value had gone up to \$500,540.10 CAD from the sale of the HEE.TO units, the user decided to buy, on January 26 (Monday), 40,000 shares from Bombardier Inc. (BBD.B.TO) at a price of \$2.85. Total cost was of \$114,019.95 (commission of \$19.95 included). The user later sold the same shares, on January 29, at a price of \$2.91. Total sale was of \$116,380.05 (plus commission). The reasons for this purchase were: (a) during the previous week Bombardier had slashed its outlook and suspended development of its Leaserjet 85 program, a move that made its share price drop dramatically from trading above \$4 to just in the range of \$2.50-\$2.85 per share (b) although it seemed the price would keep going down, Bombardier announced it was selling its military flight-training business to CAE Inc. for \$19.8 million on the week of January 26. It was assumed that this would raise investor confidence as the move would help maintain the firm's liquidity in the face of declining cash flow.<sup>3</sup> Therefore, the user proceeded with the bargain purchase and also sold the shares when the price moved up during the same week:

<b><u>WEEK 2</u></b>	STOCK	QUANTITY	DATE	PRICE	TOTAL (w/ fees)
BOUGHT	BBD.B.TO	40000	January 26 <sup>th</sup>	\$2.85	\$114,019.95
SOLD	BBD.B.TO	40000	January 29 <sup>th</sup>	\$2.91	\$116,380.05
PROFIT/ LOSS					+\$2,360.10

Table 2: Summary Week 2

The net ending account value rose to **\$502,900.20** after the second week, a movement of +\$2,360.10 from the week one ending account value, and a \$2,900.20 movement from the initial account value when beginning simulation. This was a tremendously profitable week.

### **WEEK 3 (Feb.2 – Feb.7):**

In week three, with an account value of \$502,900.20, the user decided to invest in a Canadian mining company called Centerra Gold Inc. (CG.TO) by buying 10,000 shares at a price of \$7.48 on February 2<sup>nd</sup> at 9:58AM and later sold all of these shares at 11:36AM the same day, as they rose to \$7.52. The main reason for purchasing these shares in the simulation and then selling them speedily were: (a) the user has a real-life portfolio in which he had bought Centerra Gold shares on Oct. 2014 at a price of \$5.50 and sold them during this trading week at the price of \$7.68 per share (b) Centerra Gold's primary objective is to build shareholder value.

<b><u>WEEK 3</u></b>	STOCK	QUANTITY	DATE	PRICE	TOTAL (w/ fees)
BOUGHT	CG.TO	10000	February 2 <sup>nd</sup>	\$7.48	\$74,819.95
SOLD	CG.TO	10000	February 2 <sup>nd</sup>	\$7.52	\$75,180.05
PROFIT/ LOSS					+\$360.10

<sup>2</sup> This was the current price of oil (prev. close) as of January 23<sup>rd</sup>, 2015. The day the user sold his HEE units. Data from the Financial Post, Friday, January 23<sup>rd</sup>, 2015.

<sup>3</sup> Information compiled from Financial Post, January 27<sup>th</sup>, 2015, FP3.

Table 3: Summary Week 3

The net ending account value rose to **\$503,260.30** after the third week. By making a \$360.10 (net after fees) movement from the CG.TO round-trip relative to week two, and a total movement of \$3,260.30 from the initial account value when the simulation began.

#### **WEEK 4 (Feb.9 – Feb.13):**

During the fourth week of simulated trading, the user decided to invest in Magna International Inc. shares from the TSX<sup>4</sup> (MG.TO). These were bought on February 9<sup>th</sup> at 10:07AM and sold that same day at 1:09PM. The user bought 800 shares at a market price of \$124.91, and sold the 800 shares three hours later at a market price of \$126.65. The reason for investing in MG.TO was that this company had just acquired (in the previous week) for their electronics engineering purposes, the head-up display and electronic components business units of Philips & Lite-On Digital Solutions (PLDS) in Wetzlar, Germany, as well as PLDS' ultrasonic sensor business in Hsinchu, Taiwan<sup>5</sup>. This move would strengthen Magna's electronics engineering capabilities in Europe. With commission (of \$19.95 per transaction) included in the buy and the sell, the round-trip was as follows:

<b><u>WEEK 4</u></b>	STOCK	QUANTITY	DATE	PRICE	TOTAL (w/ fees)
BOUGHT	MG.TO	800	February 9 <sup>th</sup>	\$124.91	\$99,947.95
SOLD	MG.TO	800	February 9 <sup>th</sup>	\$126.65	\$101,300.05
PROFIT/ LOSS					+\$1,352.10

Table 4: Summary Week 4

The net ending account value rose to **\$504,612.40** after the fourth week. By making a \$1,352.10 (net after fees) movement from the MG.TO round-trip relative to week three, and a total movement of \$4,612.40 from the initial account value when the simulation began.

#### **WEEK 5 (Feb.16 – Feb.20):**

With an account value of \$504.6K after the fourth week, during week five (on Wed. Feb. 18<sup>th</sup>) the user decides to invest in Enbridge Inc. (ENB.TO). An investment that totaled \$91,909.95 (including \$19.95 commission) for 1500 shares bought at a market price of \$61.26 per share. It took just about 1 hour and 20 minutes to sell off this position as the stock price rose to \$61.55, and totaling a value of \$92,305.05 (less \$19.95 commission). The most ethical explanation for the purpose of holding onto the investment in Enbridge for slightly above an hour is because of speculation. As is the reason for having bought this company's shares in the first place. Whether this is a valid explanation or not, we will leave it up to the better judge (the reader). The capital gain is better perceived in the following table:

<b><u>WEEK 5</u></b>	STOCK	QUANTITY	DATE	PRICE	TOTAL (w/ fees)
BOUGHT	ENB.TO	1500	February 18 <sup>th</sup>	\$61.26	\$91,909.95
SOLD	ENB.TO	1500	February 18 <sup>th</sup>	\$61.55	\$92,305.05
PROFIT/ LOSS					+\$395.10

Table 5: Summary Week 5

<sup>4</sup> This is relevant because Magna also trades as MGA on the NYSE.

<sup>5</sup> Full news story may be found at: <http://www.magna.com/media/press-releases-news/news-page/2015/02/03/news-release---magna-acquires-business-units-of-philips---lite-on-digital-solutions>

The net ending account value rose by \$395.10, leaving the user with **\$505,007.50**. Or CAD \$5K richer than when trading began during the simulated environment.

#### **WEEK 6 (Feb.23 – Feb.27):**

It was “banks-to-post-their-Q1-earnings” week. Needless to say, BMO missed expectations<sup>6</sup>, RBC reported record profit<sup>7</sup>, National Bank reported a 2.5% increase in quarterly profit (according the Financial Post, Feb.26<sup>th</sup>), Scotiabank was involved in a price manipulation scandal (metals probe)<sup>8</sup>, and what about TD Bank? Well, the user bought shares of TD Bank (TD.TO). With an account value of \$505K after the fifth week ended, it was decided that the investment for the sixth week would be in the financial sector, as a real-life customer of TD, the user realized that for the time being it was best to try to speculate with a stock from the banking industry (that he was familiar with) given the current economic environment. The result?

<b><u>WEEK 6</u></b>	STOCK	QUANTITY	DATE	PRICE	TOTAL (w/ fees)
BOUGHT	TD.TO	1500	February 25 <sup>th</sup>	\$53.76	\$80,659.95
SOLD	TD.TO	1500	February 26 <sup>th</sup>	\$54.79	\$82,165.05
PROFIT/ LOSS					+\$1,505.10

Table 6: Summary Week 6

A capital gain of \$1,505.10 CAD, making this week the second most profitable for the user (during simulation) and rising the account/portfolio value to **\$506,512.60**.

#### **WEEK 7 (Mar.2 – Mar.6):**

In the last week the user decided to invest in Cenovus Energy stock. Exactly 50 shares were purchased on March 3<sup>rd</sup>, and 50 shares sold on March 5<sup>th</sup>. Reason? Oil price was down at US\$49.76<sup>9</sup> a barrel on March 2<sup>nd</sup> (day before buying), which screamed; “If you’re going to speculate with an energy stock it better be now!”, and on March 5<sup>th</sup> oil price had gone up to US\$51.53<sup>10</sup> a barrel. Cenovus’ stock (being of an oil company) was perfectly correlated with the movement of oil prices.

Unfortunately, one cannot always win. By buying such few shares and selling them off (even if it was at a higher price), the user incurred a (small) loss due to commission, miscalculation, and fear of greater risk. The following table shows the last “round-trip” in detail, the one which makes the user less proud as an investor (or speculator) for the simulation period:

<b><u>WEEK 7</u></b>	STOCK	QUANTITY	DATE	PRICE	TOTAL (w/ fees)
BOUGHT	CVE.TO	50	March 3 <sup>rd</sup>	\$21.61	\$1,100.45
SOLD	CVE.TO	50	March 5 <sup>th</sup>	\$22.15	\$1,087.55
PROFIT/ LOSS					(-\$12.90)

<sup>6</sup> “Investors take BMO’s Q1 miss in stride, worse was feared”, FP1, FP3, *Financial Post*, Feb. 25<sup>th</sup>, 2015.

<sup>7</sup> “RBC posts record profit, raises dividend”, FP4, *Financial Post*, Feb. 26<sup>th</sup>, 2015.

<sup>8</sup> *Financial Post*, Feb. 25<sup>th</sup>, 2015. (FP1, FP3).

<sup>9</sup> *Financial Post*, March 2<sup>nd</sup>, 2015.

<sup>10</sup> *Financial Post*, March 5<sup>th</sup>, 2015.

A loss of twelve bucks and ninety cents after the seventh week meant that the ending account value of the user's portfolio was:  $(\$506.5K - \$12.90) = \mathbf{\$506,499.70}$ . For this week, it was clear that one of Buffet's rules of investing (listed at the top of this report) was not followed by the user.

### CONCLUSIONS

Indeed the investor made, during simulation, \$6,499.70 CAD in 7 weeks<sup>11</sup>. Whether or not this was a spectacular performance or a moderately good one, we can conclude that it was satisfactory. A set of trading rules? Indeed, 1. Attempt to buy stocks from companies in the news, 2. There is nothing wrong with getting out of an investment quickly if the investor will make a decent capital gain, 3. Always calculate the buy and the sell by adding (or subtracting) the broker's commission. After all, this was the user's biggest mistake during the seventh week. Finally, as a fourth trading rule, it is alright to buy (and later sell) stocks from companies whose market price volatility is well correlated with the price of commodities. As it happened during the simulation with the oil price related to the HEE ETF (bought in the 1<sup>st</sup> week) and the Cenovus Energy stock (bought in the 7<sup>th</sup> week), and with the price of gold's relation with the Centerra Gold Inc. stock (bought in the 3<sup>rd</sup> week). Every investment, whether speculative, short-term, or for the long-run, carries its risk. The investor must consider this whenever "playing", or investing in the stock market.

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<sup>11</sup> Appendices include: "Transaction Log", and "Investor Profile".



**APPENDIX 1: TRANSACTION LOG**

## Canadian Game - Trade History

DATE	TRADE TYPE	SYMBOL	QUANTITY	TARGET PRICE	PRICE	COMMISSION	TOTAL CASH VALUE	ACCOUNT VALUE
3/5/2015 12:06 PM	Stock: Sell at Market	CVE.TO	50		\$22.15	\$19.95	\$1,087.55	\$506,519.65
3/3/2015 11:12 AM	Stock: Buy at Market	CVE.TO	50		\$21.61	\$19.95	\$1,100.45	\$506,512.60
2/26/2015 10:09 AM	Stock: Sell at Market	TD.TO	1500		\$54.79	\$19.95	\$82,165.05	\$506,532.55
2/25/2015 10:33 AM	Stock: Buy at Market	TD.TO	1500		\$53.76	\$19.95	\$80,659.95	\$505,007.50
2/18/2015 1:24 PM	Stock: Sell at Market	ENB.TO	1500		\$61.55	\$19.95	\$92,305.05	\$505,027.45
2/18/2015 12:06 PM	Stock: Buy at Market	ENB.TO	1500		\$61.26	\$19.95	\$91,909.95	\$504,612.40
2/9/2015 1:09 PM	Stock: Sell at Market	MG.TO	800		\$126.65	\$19.95	\$101,300.05	\$504,632.35
2/9/2015 10:07 AM	Stock: Buy at Market Open	MG.TO	800		\$124.91	\$19.95	\$99,947.95	\$503,260.30
2/2/2015 11:36 AM	Stock: Sell at Market	CG.TO	10000		\$7.52	\$19.95	\$75,180.05	\$503,280.25
2/2/2015 9:58 AM	Stock: Buy at Market Open	CG.TO	10000		\$7.48	\$19.95	\$74,819.95	\$502,900.20
1/29/2015 12:15 PM	Stock: Sell at Market	BBD.B.TO	40000		\$2.91	\$19.95	\$116,380.05	\$502,920.15
1/26/2015 10:03 AM	Stock: Buy at Market Open	BBD.B.TO	40000		\$2.85	\$19.95	\$114,019.95	\$500,540.10
1/23/2015 10:04 AM	Stock: Sell at Stop	HEE.TO	29500	\$4.19	\$4.18	\$29.95	\$123,280.05	\$500,570.05
1/19/2015 9:57 AM	Stock: Buy at Market Open	HEE.TO	29500		\$4.16	\$19.95	\$122,739.95	\$500,000.00

Total Transactions: 14

Table 7: Transaction Log

**APPENDIX 2: INVESTOR PROFILE**

jorgefuentesz

Active Game - Canadian Game



Investor Profile

Member Since **2015**

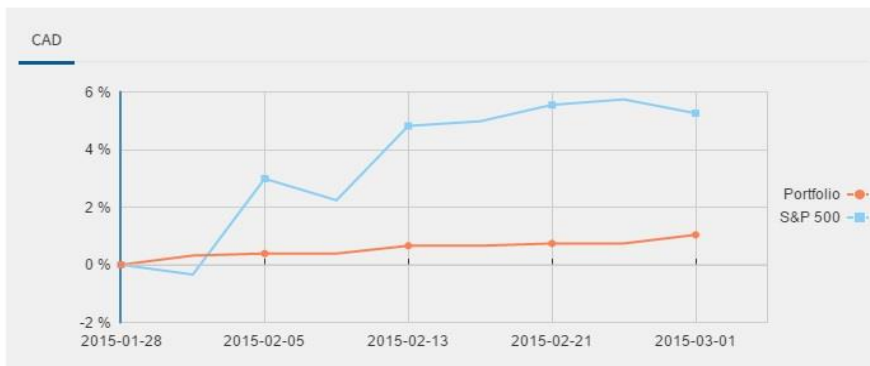
Experience

Investing Style

Time Horizon

Account Value **\$506,499.70**

Rank **593** ↑



YOUR GAMES

Canadian Game »  
\$506,499.70 (CAD)

GAME ACTIVITY

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Table 8: Investor Profile