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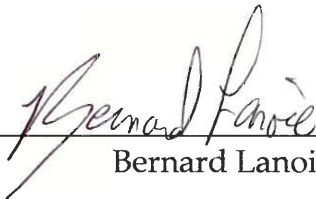
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Stock Market Simulation

An Interactive Qualifying Project Report:
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Abstract

Through the use of information and tools available on the Internet, we conducted an 8-10 week simulation to find out factors affecting the market and strategies to trade or invest to make good profit. The experience learned from this project will be useful for future real investment.

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All of our friends and family

TABLE OF CONTENTS

ABSTRACT	2
ACKNOWLEDGMENTS.....	3
CHAPTER 1. INTRODUCTION.....	6
1.1 REASONS FOR INVESTING IN THE STOCK MARKET	6
1.2 DANGERS OF INVESTING	8
1.3 HOW THE MARKET REFLECTS THE ECONOMY	10
1.4 BEHAVIOR DIFFERENCES IN VAROUS SECTORS	12
1.5 THE EFFECT OF WORLD EVENTS ON THE MARKET	15
CHAPTER 2. WEEKLY TRADING	19
2.1 TRADING STRATEGY.....	19
2.2 STOCKS CHOSEN	21
2.3 INVESTMENT RESULTS.....	31
CHAPTER 3. PENNY STOCK/CHANNEL TRADING	33
3.1 TRADING STRATEGY.....	33
3.2 STOCKS CHOSEN.....	34
3.3 INVESTMENT RESULTS.....	37
CHAPTER 4. PRESTONS TRADING STRATEGY	40
4.1 TRADING STRATEGY.....	40
4.2 STOCKS CHOSEN.....	41
4.3 INVESTMENT RESULTS.....	45

CHAPTER 5. TRADING ACCORDING TO EARNINGS REPORTS 47

5.1 TRADING STRATEGY..... 47

5.2 STOCKS CHOSEN..... 47

5.3 INVESTMENT RESULTS..... 57

CHAPTER 6. SHORT TERM TRADING 70

6.1 TRADING STRATEGY..... 70

6.2 STOCKS CHOSEN..... 71

6.3 INVESTMENT RESULTS..... 77

CHAPTER 7. CONCLUSIONS AND RECOMMENDATIONS 80

REFERENCES 81

Chapter 1. Introduction

The one constant in the American way of life is that of change. Nothing illustrates this more than the stock market. As the Internet and other technological devices have developed over the recent years, the rate of change of the market has escalated incredibly. Thousands of web sites have up to the second stock quotes and related news. Two way pagers and cell phones allow people to always pay attention to the action. Because the market is always in a state of change, it is very difficult to predict the future. It requires a great deal of poise, patience, and luck to be able to be successful in "beating the market." However, the stock market is a wonderful investment tool, and is one of the easier ways to receive a high return on an investment.

1.1 Reasons for Investing in the Stock Market

There are several reasons why it is a good idea to invest money in the stock market. There is a large degree of risk involved because there is no guarantee that you will get any money back, let alone a profit. However, in most cases, no risk equals no return. If one chooses to put their money in a savings account in a bank, the money stays there. There is a fixed rate of return and you are guaranteed that money over an extended period of time. If one were to carefully

study the trends of the market and make an educated stock investment, he or she might increase his or her profit by a considerable amount. The investor might receive this return in half of the amount of time as well. The market changes by the second, hence one can make money in just the same amount of time. Also, some companies issue a dividend to be paid to each of its stockholders. The companies try to keep this dividend constant to ensure the stockholders that the company is where it ought to be.

Another great thing about the stock market is that there is always an opportunity to make money. A common misconception about the market is that when the market is “bad” you will lose all of your money. The fact of the matter is that there is no such thing as a “good” or a “bad” market. There is a “bull market” and a “bear market”. A bull market is when the market is going up. This can absolutely be a good thing if your goal is to sell your existing stock. You will earn profit from the increase in value. Conversely, in a “bear market”, you will not lose money automatically. A “bear market” is a perfect opportunity to buy all of your stock. The prices of stock are approaching their respective low points. Therefore, when the market rebounds, you can make your money on the difference. If you suspect the market to continue to go down, you can “short” a stock. You borrow a certain amount of stock and buy it after it falls to a smaller price. What it comes down to is that when the stock prices are at a respective high, it is a good time to sell. Conversely, when the prices fall, it is a good time

to buy. There is always an opportunity to make a profit. However, we all know that something that seems too good to be true usually is.

1.2 Dangers of Investing

Statesmen Benjamin Franklin once said that the “first mistake in public business is going into it”. Many of the dangers of public investing that he was talking about are still true today, in fact, the risks of trading stock have increased since that statement was made. First and foremost among trading risks is the risk of losing your money. When investing in savings accounts, bonds, CD’s, etc. the return is comparatively low but there is little to no chance of losing your money. Stocks are much more volatile and risky however. Stocks may produce a much higher return than these low risk investments; but one can also lose a good deal or even all of your money investing in stocks. This risk is especially true in today’s bear market. Some markets have lost 50 per cent or more of their value in the last three years. Many investors lost a great deal of money. This is the most common and prolific risk of investing in the stock market.

Another risk of investing in the stock market is the highly emotional roller coaster that an investor is on. There have been numerous cases of day traders taking their own lives or going on killing rampages due to plummeting stocks. This risk has cost innocent people their lives. These cases are extreme but

emotional distress is caused in casual investors as well. The normal dips of the market cause many people stress and worrying.

Another great risk of stock market investing is inflation risk. This occurs when your stock output is less than the amount of inflation in the country. So while you may increase the money of your initial output, that money is worth less due to inflation.

This is the risk that you buy stock in a company that fails or has a major unexpected deterioration in its business. The cure for this risk is basic and simple: diversification. If you own stock in one or a handful of companies, an unexpected disaster hitting one of them can do serious damage to your portfolio. But if you own 500 companies, a disaster in one will have little overall effect.

Another risk of investing is what is known as asset risk. This risk occurs when you have all or a great percentage of your money invested in one genre of stock. These stocks are much more risky because entire types of stock can plummet in certain situations. A perfect example of this has happened recently. In the late 90's many stockholders invested heavily in "dot-com's" or technological stock. A great deal of people had a large percentage of their money in these stocks. When these markets became overcrowded and unprofitable the group of "tech" stocks took a great loss. This caused people who had invested predominantly in these stocks to lose huge amounts of money.

Event risk is the risk that some unexpected event will topple the market, or part of it. This may be an assassination, a natural disaster, a political upheaval or some man-made crisis that causes investors to suddenly question the future. This risk also can be very personal, affecting only you and your family: a death, illness, layoff or a house fire. Liquidity risk is the risk that you won't be able to get your money quickly when you need it without taking a significant investment hit. If you own a small business, selling it for anything close to what you think it's worth is usually difficult and time consuming. If your wealth is tied up in raw land and you need to turn it into cash, you may have to wait months or years to get the price you think you deserve. If you invest in limited partnerships and need to sell before they expire, you may have to sell at a substantial loss.

There are many substantial and varying risks of investing in the stock market. Investing is a high stakes and calculated risk. However the reason so many people take these risks is because stocks can produce more profits than any other form of investing. Investing in stocks provides capital for our nation's business and if done correctly will usually yield a profit despite the risks.

1.3 How the Market reflects the economy

How well the stock market is doing is an expression of how well the economy is doing. In order to understand this, you need to understand what the stock

market is exactly. If a certain company, lets say McDonalds, wants to build a new store in a new town, then they need money to do this. They get this money by people like us buying stock or shares in there company. When people do this, they give them their money, and in return, they own a little bit of that company. If that company does well, then those people who invested their money see a part of the profit that the company has made. But if the company does poorly and ends up losing some money, then those people who invested their money in the company also lost some of there money.

This all ties into the economy by describing how goods and services are distributed. According to an Article by the U.S. Department of State, the economy is made up of entrepreneurs and managers who bring together natural resources, labor and technology to produce and distribute goods and services. If the stock market is doing well then that means that large companies are making a lot of money. And the more money we have in our economy, the better it's doing. If our economy is doing bad then that means that large companies are losing money and going under or bankrupt. When this happens then the stock market goes down too because companies are losing money so their stocks are going down.

1.4 Behavior Differences in Various Sectors

Different sectors of business are affected in different ways however. Because there are so many factors that cause the market to change, a strong market period for one sector can be a weak one for a different sector. Here are some examples of some different company types:

Telecommunications: Wireless Services

The wireless service industry has been a growing market for the past few years. With more than five hundred million users of wireless communications today, that number is supposed to reach over one billion by the year two thousand three. The growing number of users is probably directly related to the growing number of features that service providers are offering. Most wireless providers are digitizing their network, allowing for better sound quality, more capacity, and Internet service.

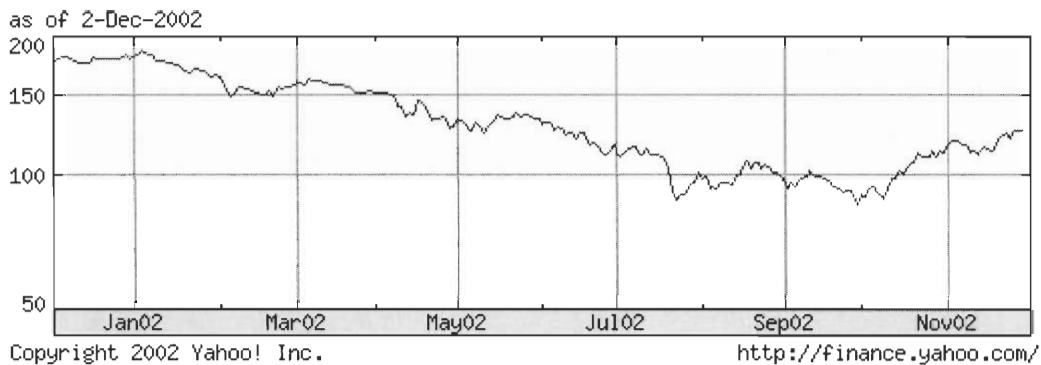


Figure 1.1 DJ Telecomm History

As figure 1.1 shows at the beginning of the year this market was as high as its ever been but falling midway through the year. However, it is back on the rise and should stay up for a while. What's great about this industry is that all ages of people are interested in these types of products and services.

Biotechnology and Drugs: Pharmaceuticals Industry

This is simply one of the wealthiest markets in the economy, with over the counter drugs and prescription medicine bringing in over three hundred million dollars a year. What is great for the US economy is that five of the top ten largest drugs companies are American. Although there is a lot of money to be made in this business there are also high cost. With the cost of research and design going up companies are focusing on more of the chronic diseases, where people would always need the treatment.

DJ BIOTECH

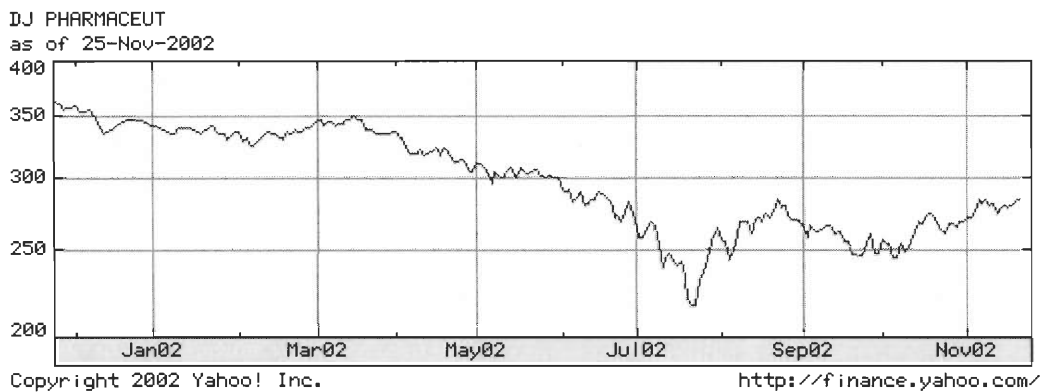


Figure 1.2 DJ Biotech History

Figure 1.2 shows the pharmaceutical market for the past year. While in a downward trend this market is looking promising. The sixty five year old and older age group are consuming three times as many more drugs than the younger population. With a growing number of the elderly population and medicine keeping them alive longer it make for a still growing market.

Financial Services

Financial services convinced people that investing their money with them would make everyone rich. With the falling of the one time giant Enron, question arose about how investment banks had shares actually worth something when everyone else invested had worthless paper. People lost confidence in these investment banks, which explains why this market has dropped in the past year.

DJ FINANCIAL

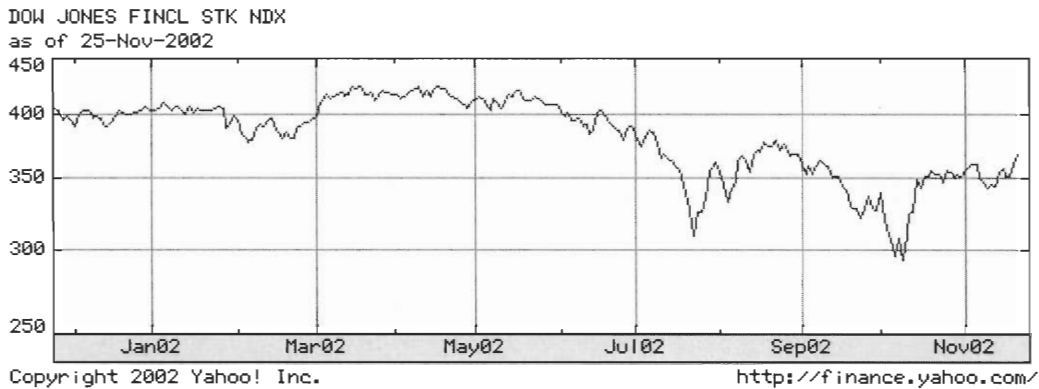


Figure 1.3 DJ Financial History

It's hard to tell whether or not this market will recover, only time will tell.

1.5 The Effect of World Events on the Market

World events also play a key role in the market. Thought of a potential war can hinder the consumers' confidence in security. Company mergers always cause a reaction in one way or another. Almost any world event affects the stock market in one-way or another.

The media has been filled with speculation about Iraq for weeks. But traders don't see it as a market dominant. A full-scale operation could be months off. A small-scale "kidnap style" operation could come quicker but is less likely. Government would be hesitant to risk the helicopter fiasco of Iran hostage days.

And, traders think even if conflict began, it would have little direct economic impact unless it were to spin out of control.

Terror is another story. Another event could shock an already stagnant economy. In the days immediately following 9/11, traders used to whisper that we were one bomb away from a 2000-point sell off. A bit of hyperbole perhaps but indicative of the anxiety on the issue. The effects of 9/11 are still affecting the outcome of the market. We are down from the lows from 9/11. Going to war with Iraq would not help out the economy. There is talk about mining oil in Alaska because going to war would mean less oil.

Worries about jobs and a possible U.S. attack on Iraq pummeled consumer confidence to its lowest level in nine years in October, not good news for the holiday shopping season. The shock slump in sentiment rattled financial markets, stoking speculation the Federal Reserve could cut interest rates, which would lower borrowing costs for everything. Consumer Confidence Index slid to 79.4, a low not seen since November 1993, from 93.7 in September and far below forecasts for 89.7. Excluding September 2001 this was the biggest monthly drop since 1990.

Indicator	Period	Consensus	Actual
October 29			
Consumer Confidence	Oct	90.0	79.4

Figure 1.4 consumer confidence level

In early October Pacific Maritime Association, representing the shippers, barred workers and refused to allow unloading as it fought with the International Longshore and Warehouse Union, which represents 10,500 longshoremen. After ten days of holding out President George W. Bush invoked the Taft-Hartley Act, allowing him to intervene in the lockout on the ground that it constituted a nationwide economic crisis. Bush secured a federal court decision reopening the ports during a 90-day "cooling off" period. While the lockout lasted just 10 days, it caused a massive backlog of ships waiting to be unloaded. At the Los Angeles and Long Beach ports alone, about 102 ships were waiting to be unloaded Monday. Normally, only six or fewer ships are waiting. With the lock out many retailers have a shortage of supplies on their shelves. Many retailers took other means in getting their merchandise to their stores (i.e. Airplanes). It cost many retailers large amounts to get their merchandise.

Federal Reserve surprised investors with a hefty interest-rate cut and a sweeping Republican election victory stirred hopes for a business-friendly administration. The Federal Reserve slashed interest rates by a half-percentage point, bringing borrowing costs to a fresh 40-year low.

The market is in many ways a barometer of how the world is changing for the better and for the worse. There is no way to control society; hence there is no way to tame the stock market. However, one can predict the behavior of the

market by evaluating certain trends and using calculated formulas and strategies.

Chapter 2. Weekly Trading

2.1 Trading Strategy

The algorithm used to guarantee profits in the stock market does not exist. If anyone finds a way to predict the precise behavior of any stock on any given day, the stock market will soon become obsolete. For every time one person profits on a transaction, there is another who loses money. Some predictions are right and some are wrong. The only thing an investor can do is make an intelligent prediction. This prediction may be based on an annual earnings report. It can be based on the pattern of stock prices over a certain time period. Supply and demand from around the world may lead an investor to make his or her decision. Some people take all of these factors into account and then some.

The strategy of an investor also reflects his or her goals for the investment. The risk of an investment is directly proportional to the potential gain. Individuals who seek large returns in the stock market will need to make some big risks. Likewise, those who cannot afford to lose much money will have to make investments with smaller return potential. The investor should also have a general idea of how often they will be making transactions. A day-trader looking for frequent small gains will have a different game plan than an investor who wants to put money in a stock that will rise gradually over time. All of these factors should be incorporated into an individual's formula for investment.

To narrow down the possibilities for my trading formula, I had to first assess what my goals were. I had to assess how much money I was working with, how much time I had and what trends I wanted to pay the most attention to. Fortunately, since this is a simulation, there were not any restrictions on money. I arbitrarily selected to start with \$10,000. This was more than enough to spend on my stocks to yield some significant result. I had seven weeks allotted to simulate my trading. Therefore, long-term trading techniques were out of the question. Day trading is a full-time job, so I decided to find a formula based on a weekly plan.

Every Tuesday, I looked at stocks that had dropped a significant amount since Monday. Anytime there was a drastic drop, I would research to make sure there was not any severe news surrounding that company. Because if there was a report of massive layoffs within the company for example, the stock would likely continue to drop for some time. I would then look at the volume of transactions being made. If this number was significantly larger than in preceding days, there was a good chance that this stock was being "over sold". Eventually, the volume will decrease, and the demand for the stock will increase. This will increase the value of the stock. Therefore, the main theory behind this strategy was to take advantage of a stock being "over sold". I bought these stocks when they were being "over sold" and sold them after they return to their "true" costs.

For each of the seven weeks, I selected two stocks from the same industry that met the criteria above. I bought the two stocks at the closing price on Tuesday, spending roughly \$5,000 on each stock. I would then sell them at the opening price on Friday. For the seven-week simulation, I received a return of roughly 1%.

2.2 Stocks Chosen

Week 1: Tobacco

Date	Action	Stock	Shares	Share Price	Commission	Amount
4-Oct-02	Sell	ITY	150	31.40	20.00	4,690.00
4-Oct-02	Sell	BTI	200	20.65	20.00	4,110.00
1-Oct-02	Buy	ITY	150	31.51	20.00	4,746.50
1-Oct-02	Buy	BTI	200	20.35	20.00	4,090.00

Figure 2.1 Week 1 Trade Results

BTI – British American Tobacco

ITY – Imperial Tobacco Group

The tobacco industry will always be surrounded by controversy. Smoking and chewing tobacco seriously increase the risk of cancer. Unfortunately, it is one of the larger industries in the world, which makes it a major player in the stock market.

The British American Tobacco Company has a presence in 180 different markets. On September 30, its stock closed at \$20.64. The next day, it closed at

\$20.35. Sure enough, the stock price rebounded by the end of the week. This yielded a return of \$20.

The Imperial Tobacco Group is the fourth largest international tobacco company. It is obvious that it is a very successful business. Therefore, when its stock share price falls in the beginning of the week, one would think that the price would rebound soon after. However, the price dropped even further by weeks end. It was not a significant drop, so most of the investment was retained.

Week 2: TV Broadcasting

Date	Action	Stock	Shares	Share Price	Commission	Amount
11-Oct-02	Sell	MTGNY	600	7.36	20.00	4,396.00
11-Oct-02	Sell	PR	400	11.23	20.00	4,472.00
8-Oct-02	Buy	MTGNY	600	7.12	20.00	4,292.00
8-Oct-02	Buy	PR	400	11.16	20.00	4,484.00

Figure 2.2 Week 2 Trade Results

PR – Price Communications Corporation

MTGNY – Modern Times Group

Over the last half century, TV Broadcasting has evolved into a lucrative enterprise. Americans’ demand for television entertainment is one of the few constants of our society. Price Communications Corporation has provided

broadcast services for NBC, CBS, ABC, The Discovery Channel, and even the BBC. PR closed at \$11.16 on October 8, down from \$11.41 from the day before with half as much volume. The price rebounded to \$11.23 by October 11. However, any transaction requires a \$20 commission charge. Even though the stock price increased, the overall transaction was a small loss because the gain did not exceed the commission charges.

The Modern Times Group is a company that services most of Northern Europe with its Digital-TV, radio, and many other media outlets. MTGNY was down more than seventy cents to \$7.12 on October 8. The trading volume was almost six times the volume of the previous day. This stock investment was a little more risky than the others. This is because the stock price was quite small. A fifty-cent loss for a \$100 stock is pretty insignificant. It only represents 0.5% of the stock price. A fifty-cent loss for a \$1 stock is a 50% loss. Fortunately, the stock rebounded to \$7.36 by weeks end. This yielded a return of over \$100. This is a perfect example of how a riskier stock investment returned a larger amount of money.

Week 3: Brewers

Date	Action	Stock	Shares	Share Price	Commission	Amount
18-Oct-02	Sell	GENBB	500	9.41	20.00	4,685.00
18-Oct-02	Sell	BUD	75	53.55	20.00	3,996.25
15-Oct-02	Buy	GENBB	500	9.25	20.00	4,645.00
15-Oct-02	Buy	BUD	75	53.78	20.00	4,053.50

Figure 2.3 Week 3 Trade Results

BUD – Anheuser-Busch Companies Incorporated

GENBB – Genesee Corporation

The stereotypical American would not be complete with his television if he did not have his beer. Television promotes this culture adamantly with advertisement. Anheuser-Busch is the largest brewer in the world. A share of their stock sold for \$53.78 on October 15. This was down by about fifteen cents from the day before. There was also a high level of volume. However, the stock fell to \$53.55 by that Friday. With that decrease and the cost of commissions, that investment lost roughly \$60.

The Genesee Corporation is the seventh largest brewery in the U.S. despite distributing to only half the country. It is a significantly smaller company than Anheuser-Busch. Its stock price was down to only \$9.25 on October 15. The stock increased slightly on October 18 when it opened at \$9.41. After commission costs, the investment yielded a \$40 gain. This goes to show

that a risky investment will not always lead to an extreme. If the risky investment results in a profit, it does not imply that that profit is large. The same goes for a risky investment that results in a loss; it does not imply that the loss is great.

Week 4: Auto Manufacturing

Date	Action	Stock	Shares	Share Price	Commission	Amount
25-Oct-02	Sell	HMC	200	20.62	20.00	4,104.00
25-Oct-02	Sell	TM	100	50.50	20.00	5,030.00
22-Oct-02	Buy	HMC	200	20.10	20.00	4,040.00
22-Oct-02	Buy	TM	100	48.79	20.00	4,899.00

Figure 2.4 Week 4 Trade Results

TM – Toyota Motor Corporation

HMC – Honda Motor Corporation

The automotive industry is a good example of globalization. Cars, trucks, and S.U.V.'s are manufactured and sold all over the world. The Japanese have been delivering dependable vehicles to the U.S. for quite some time now.

Toyota Motor Corporation is the world's third largest automaker. They have over fifty manufacturing companies in twenty-seven countries. Toyota's stock share price fell to \$48.79 on October 22. This price was down from the

previous \$50.70 price. The trading volume was also over 10% than the day before. The price rebounded on Friday, October 25, to \$50.50. This investment yielded a gain of roughly \$130. Here is an example of a small risk investment that returned a relatively large sum. This illustrates how one cannot assume the magnitude of a loss or return is always dependent to the amount of risk involved.

Honda Motor Corporation is another Japanese automotive giant. It also produces many other engine- run appliances such as lawn mowers and snow blowers. Honda's price was \$20.10 per share on October 25, down nearly fifty cents from the day before. The trade volume on that day was higher than that Monday as well. Fortunately, the price per share bounced back up by fifty-two cents. This resulted in a \$64 profit for the transaction. Both transactions for this week resulted in substantial gains.

Week 5: Transportation

Date	Action	Stock	Shares	Share Price	Commission	Amount
1-Nov-02	Sell	FDX	75	52.99	20.00	3,954.25
1-Nov-02	Sell	GMT	200	20.05	20.00	3,990.00
29-Oct-02	Buy	FDX	75	52.60	20.00	3,965.00
29-Oct-02	Buy	GMT	200	20.02	20.00	4,024.00

Figure 2.5 Week 5 Trade Results

GMT – GATX Corporation

FDX – FedEx Corporation

The automobile industry is only one branch of transportation. Many companies provide service of multiple modes of transportation. For instance, GATX Corporation has GATX Rail and GATX Air. Both groups deal with the leases and other finances of their respective mode of transportation. GATX dropped down to \$20.10 on October 29. GATX closed the previous day at \$20.41. The trading volume on the 29th was nearly double the volume of the 28th. The GATX price per share opened up at \$20.05 on that Friday. Because it was such an insignificant increase, the investment resulted in a loss with the commission charges.

Federal Express is a company that transports packages and information. They are known to be able to ship packages to anywhere in the world in a very short time frame. FedEx closed at \$52.60 on Tuesday, October 29. On that

Monday, FedEx closed at \$53.73. The volume on Tuesday was more than double that of Monday. That Friday, the cost per share opened at \$52.99. The increase was not enough to have a net gain. For both of these companies, the increase was too insignificant. The commission costs were larger than the initial gains.

Week 6: Life Insurance

Date	Action	Stock	Shares	Share Price	Commission	Amount
8-Nov-02	Sell	PLFE	400	11.65	20.00	4,640.00
8-Nov-02	Sell	ANR	900	4.40	20.00	3,940.00
5-Nov-02	Buy	PLFE	400	11.88	20.00	4,772.00
5-Nov-02	Buy	ANR	900	4.39	20.00	3,971.00

Figure 2.6 Week 6 Trade Results

ANR – Annuity and Life Ltd.

PLFE – Presidential Life Corporation

Insurance companies can be massive corporations or smaller establishments. Annuity and Life is an example of a smaller insurance company. While Presidential Life Corporations isn't the largest insurance company in the business, it is significantly larger than Annuity.

Annuity shares sold for \$4.39 at the close of the market on Tuesday, November 5. The day before, it closed at \$4.78. Because the shares are so inexpensive, this drop is very significant. When I sold the shares back on that

Friday, the opening price was \$4.40. Even though the miniscule gain was not enough to have a net gain, it was not as bad as it could have been. If the stock price had continued to decrease, I could have lost a large sum of my money. That is the risk of investing in inexpensive stocks.

Presidential Life Corporation had stock shares that sold for a slightly higher price. On Monday, November 4, one share of stock sold for \$12.36. The next day, it dropped down to \$11.88 with the trade volume almost double of what it was on Monday. However, I sold the shares back at the market opening on Friday. Each share was only worth \$11.65. The entire transaction was a net loss of over a hundred dollars.

Week 7: Chemicals

Date	Action	Stock	Shares	Share Price	Commission	Amount
15-Nov-02	Sell	NCX	200	19.07	20.00	3,794.00
15-Nov-02	Sell	APD	100	42.38	20.00	4,218.00
12-Nov-02	Buy	NCX	200	18.96	20.00	3,812.00
12-Nov-02	Buy	APD	100	41.08	20.00	4,128.00

Figure 2.7 Week 7 Trade Results

APD – Air Products and Chemicals Incorporated

NCX – NOVA Chemicals Corporation

My final investment sector was that of chemical companies. Hospitals and other medical centers all over the world depend on these institutions. Air Products and Chemicals Inc. is the largest global supplier of electronic materials, hydrogen, and helium. The share price on November 12 was down to \$41.08 from Monday's \$41.24. The trade volume was almost three times as high on Tuesday than it was on Monday. I sold the shares back at \$42.38 per share. This yielded a profit of \$90. From Tuesday to Friday, the price rose by over a dollar. If there had been a similar increase in a very inexpensive stock, my investment would have yielded very significant gains. Nevertheless, the gain in this situation was still substantial.

NOVA Chemicals is also a major presence in the chemical business world. They create many products that are used in our everyday lives such as grocery bags and medical devices. Shares of stock of NCX were \$18.96 on Tuesday, November 12. On Monday, the shares were \$19.29. The trade volume on Tuesday was nearly three times the volume on Monday. On Friday, November 15, the stock was being sold for \$19.07. This was another scenario where the gain did not outweigh the cost of commission. However, the loss was not very significant.

2.3 Investment Results

Date	Action	Stock	Shares	Share Price	Commission	Amount
16-Nov-02	Cash Out	-	-	-	-	10,097.50
15-Nov-02	Sell	<u>NCX</u>	200	19.07	20.00	3,794.00
15-Nov-02	Sell	<u>APD</u>	100	42.38	20.00	4,218.00
12-Nov-02	Buy	<u>NCX</u>	200	18.96	20.00	3,812.00
12-Nov-02	Buy	<u>APD</u>	100	41.08	20.00	4,128.00
8-Nov-02	Sell	<u>PLFE</u>	400	11.65	20.00	4,640.00
8-Nov-02	Sell	<u>ANR</u>	900	4.40	20.00	3,940.00
5-Nov-02	Buy	<u>PLFE</u>	400	11.88	20.00	4,772.00
5-Nov-02	Buy	<u>ANR</u>	900	4.39	20.00	3,971.00
1-Nov-02	Sell	<u>FDX</u>	75	52.99	20.00	3,954.25
1-Nov-02	Sell	<u>GMT</u>	200	20.05	20.00	3,990.00
29-Oct-02	Buy	<u>FDX</u>	75	52.60	20.00	3,965.00
29-Oct-02	Buy	<u>GMT</u>	200	20.02	20.00	4,024.00
25-Oct-02	Sell	<u>HMC</u>	200	20.62	20.00	4,104.00
25-Oct-02	Sell	<u>TM</u>	100	50.50	20.00	5,030.00
22-Oct-02	Buy	<u>HMC</u>	200	20.10	20.00	4,040.00
22-Oct-02	Buy	<u>TM</u>	100	48.79	20.00	4,899.00
18-Oct-02	Sell	<u>GENBB</u>	500	9.41	20.00	4,685.00
18-Oct-02	Sell	<u>BUD</u>	75	53.55	20.00	3,996.25
15-Oct-02	Buy	<u>GENBB</u>	500	9.25	20.00	4,645.00
15-Oct-02	Buy	<u>BUD</u>	75	53.78	20.00	4,053.50
11-Oct-02	Sell	<u>MTGNY</u>	600	7.36	20.00	4,396.00
11-Oct-02	Sell	<u>PR</u>	400	11.23	20.00	4,472.00
8-Oct-02	Buy	<u>MTGNY</u>	600	7.12	20.00	4,292.00
8-Oct-02	Buy	<u>PR</u>	400	11.16	20.00	4,484.00
4-Oct-02	Sell	<u>ITY</u>	150	31.40	20.00	4,690.00
4-Oct-02	Sell	<u>BTI</u>	200	20.65	20.00	4,110.00
1-Oct-02	Buy	<u>ITY</u>	150	31.51	20.00	4,746.50
1-Oct-02	Buy	<u>BTI</u>	200	20.35	20.00	4,090.00
30-Sep-02	Cash In	-	-	-	-	10,000.00

Figure 2.8 Final Simulation Results

As you can see above, only six of my fourteen stocks yielded me an eventually profit. This means that most of the time, the stock lost some value. However, the overall investment of \$10,000 was increased to \$10,097.50. That is a

0.975% gain over a seven-week period. If this trend would continue, that would essentially result in an annual return of roughly 7.5%. That number suddenly looks a lot better. Using a strategy that will result in gains and minimal losses will be the best way to invest successfully.

Chapter 3. Penny Stock/Channel Trading

3.1 Trading Strategy

There are many ways and many different strategies when it comes to choosing and trading stocks. The main thing to remember is to always be comfortable with your investment strategies because if you aren't comfortable then you shouldn't use them. You may want to consider an industry course to understand these trading vehicles better but learning with your own money isn't wise. I decided to choose penny stock trading as my trading strategy. Penny stock trading consists of finding a stock that is really low, like a dollar or two, that you think has a lot of potential and will go up in price soon. You buy a whole lot of shares of this low stock because it is really cheap and when it goes up by like a dollar or two, which isn't that much in the stock market, you've already made 100% profit. I chose this strategy because it sounded like a somewhat easy strategy. All you have to do is find a low priced stock that you think is going to have some potential, and then just wait for the stock to go up a cents and you've already made some money. But first you have to find the right stock. Here are a few ways of choosing stocks.

3.2 Stocks Chosen

There are two ways of doing research to find out which stocks have potential. The easy way is going on the Internet and signing up in one of the groups online that give out tips of which stocks will soon skyrocket. This way is not very dependable because you don't know where the group is getting their information and it is also very expensive. So I don't suggest doing it this way. The other way is going online and doing the research yourself. I say online because probably by the time it hits the newspapers, and definitely the magazines, it will be too late and you will have missed your opportunity to buy the stock. Also, "thanks to a proliferation of financial data on the net, the average person today can tap into information that would have been available only to investment professionals 10 years ago." This way is a little harder and takes a little more time, but it's free, and at least you know where you're getting your information. Knowing where you get your information from is important. You should always make sure your financial information is coming from professionals who do not have any vested interest in the stocks they recommend. You want to make sure that the information you get is unbiased.

When I chose my stocks I first had to look at how many and which penny stocks I had to select from. I did this by using my yahoo account (which was free) and just simply looking up penny stocks.

A quick way to judge whether a stock is expensive or cheap is to compare its P/E ratio to its projected growth rate. The Wall Street analysts who track stocks specialize, among other things, in predicting how fast a company's earnings will grow. By matching predicted five-year growth rates with price/earnings ratio (based on estimates for the year ahead), you can get an idea whether the stock is over-valued or under-valued: If the P/E is greater than the projected growth rate, the stock is expensive; if it's below, the stock is cheap.

From here on, I may do things a little differently than most people because I don't know much about what's going on in the real world. I almost never watch the news or read the newspapers, so the only thing that I know about is sports and the really big things that are happening in the world. Because of this, I chose to buy the stocks BOOT, STST, HBIO, and EVCI.

BOOT is a lacrosse shoe selling company owned by FILA, which is a shoe company. I chose this stock because I have a lot of friends in college and high school and a lot of them have started playing lacrosse. Going by this and from what I can pick up on Sportscenter, I felt like lacrosse was a sport that is moving up, and with Christmas coming up soon I figured parents would be buying their kids some sports equipment. So I went with my intuition and bought the stock.

HBIO is a Harvard biotechnology group. I chose them because I knew that even though we aren't actually in a war yet, we are still going to be doing research about some weapons that we could use when we do go to war. So I started looking in the biotechnology area and thought, Harvard is one of the best schools in the nation, they are probably going to be doing the top research and if they hit on something big, then their stock would go up.

STST is another biotechnology company called Sensytech Inc. I chose this stock for the same reason I chose HBIO.

EVCI is a career college company. I'm not really sure what they do. I bought their stock because I had been following it for a while and it kept doing the same thing over and over, where it would drop to a certain price, then go back up to its previous price. So I would buy at the low and sell at the high.

That is how I chose my stocks, but before I bought shares for them, I would follow them for a little while to determine the channel that I would buy and sell was. This type of trading is called channel trading, where you follow a stock for a while and notice that it follows a roller coaster type trend going up and down constantly, only it goes up and down between the same values. You decide on these values to be your highs and lows at which you sell and buy at. I

chose this method of stock trading because it seemed to be a little safer way to invest my money, knowing that over time, the stock price would follow the trend and always end up around my selling price eventually.

3.3 Investment Results

We traded for about seven weeks and during the first part of those seven weeks, I spent much of my time researching certain stocks to try and figure out what their high's and low's were so that when the time came, I would know when to buy and when to sell. I chose to follow five stocks, but found that five is too many to keep track of, so I ended up just trading with four stocks. The four stocks that I traded were BOOT, STST, EVCI, and HBIO.

These four stocks don't really have anything to do with each other because the way that I picked them was based on how much they were selling for, and what they had been doing in the past few weeks. Because I was interested in penny stock trading, I was looking for the stocks with the lowest value, which seemed to be going up. Figure 2.1 below shows that of the four stocks that I picked, all but one of them increased in value and I ended up making a total of \$3,780.

Symbol	Date Traded	Price At	Sold	Change	Percent Change	Shares	Cost(\$)	Paid	Gain (\$)
BOOT	Nov. 7	2.4		0.13	5.7	10,000	24,000	2.27	1,300
STST	Nov. 7	9.03		0.18	2	2,500	22,575	8.85	430
EVCI	Nov. 6	0.79		-0.21	-23.3	10,000	7,900	0.9	-1,100
HBIO	Oct. 28	2.94		0.21	7.69	5,000	13,650	2.73	1,050
HBIO	Oct. 18	2.89		0.2	7.43	5,000	13,450	2.69	1,000
HBIO	Oct. 8	2.94		0.22	8.05	5,000	13,600	2.72	1,100
Total						37,500	95,175		3,780

Figure 3.1 Jim's Trading Transactions

I have found that channel trading can be a great way to make money and not lose a whole lot at the same time. But you also don't gain a whole lot of money at the same time too. I put in a total of almost a hundred thousand dollars, and only made a little less than four thousand dollars. That's only a four percent increase, which isn't too overwhelming. This is because the channels that I was trading in were so small, around twenty cents, that I never gave my stocks enough time to really go up. Once they reached the top of the channel, I sold, like I should, but some of the stocks would keep going up, like HBIO, when I sold it at 2.94 on Oct. 28, went all the way up to 3.4 and hasn't gone back down since. But I guess that's just the way the stock market is. If there were a way to predict the highs and lows, then everybody would be a millionaire.

A four percent increase, however, is better than keeping it in the bank, and it's not that bad considering the state the market was in when we were trading. The market was at a low when we started trading due to the World

Trade Center bombing that happened a year ago. Considering this, we didn't exactly pick the best time to experiment in trading on the stock market, but we still came out with more "money" than we started with.

Chapter 4. Preston's Strategy

4.1 Trading Strategy

My trading strategy was very simple. Do not lose money. There is no technical name for my trading strategy. This was the first time that I had been involved with the stock market and the trading of stocks. Though we were not using real money for the project, I realized that we must treat it as though we are, as I do plan on trading with real money in future. I did some research on stocks and tried to find an overall trend for different markets (i.e. Financial, Communication, and Pharmaceutical). Research and following moving averages did not work for me, however, can be great ways to make money with trading. I simply used my own reasoning for my strategy. I was going to stay in the market with the stock that I had chosen, as long as I was making money. It did not matter whether I was up one penny or one dollar, as long as I was ahead that was fine with me. Midway through trading I wanted to change my strategy. My partner Jim's trading strategy was to buy stock that was extremely low in price, so that when the price rose the percentage of money gained would be high (penny stock/channel trading). I saw what he was doing and considered selling both of my stocks and changing to his method. However, I never did sell and try channel trading, I just traded with IBM and Weight Watchers until the end of the trading deadline. If I had the opportunity to trade again, I think that I would channel trading.

4.2 Stock Chosen

Before anyone starts trading or contemplates the thought of risking their money in the stock market, they should do some research. They should probably look into the overall trends of the markets and companies that they are interested in. I found that it was very easy to do my research online. I mostly used two resources in getting my information about the different companies. I went to that specific business' website to study exactly what they do and I used www.yahoo.com for a company profile and to track the stock that I was following. Using yahoo I looked at historical prices and figures to possibly find some sort of tendency that the stock had. Overall I found no sort of repeating behavior or tendency in the companies that I tracked. Though research and studying probably will help when trading stock, there is no sure way of knowing when stock will rise or fall. For this reason I mostly neglected any of the research on the different markets that I had performed. What I thought would work is buying stock from companies that in the eyes of the public have been satisfying the customer. That is why I decide to trade or track the following companies: International Business Machines Corporation, Weight Watchers International Incorporated, Nike Incorporated, Sony Corporation, and Krispy Kreme Donuts Corporation. I only made transactions with IBM and Weight Watchers, however because I also tracked the other three businesses I have listed information on them.

International Business Machines Corporation

The International Business Machine Corporation (IBM) is one of the worlds top companies in technological products and services. This leader in computer hardware and software operates in more than one hundred fifty countries. Lists of product produced by this corporation include: personal computing notebooks, servers, microelectronic multimedia encoders and decoders. Services include: personal computing, business consulting, and integrated technology services. We are in an era of technology and services for this technology. Companies are moving faster and producing products that match the speed with which business is moving. IBM is a good example of one of these companies.

Weight Watchers International Incorporated

The Weight Watchers International, Inc. is a world leader in weight loss programs. Their products are available in about thirty countries, including: Denmark, South Africa, Greece, and Hong Kong. Services go as far as planning weight loss for a company, on site or online, to plain workout tips. They have countless recipes to help you anyone live a healthy lifestyle. I believe that people are becoming more health conscious. People are always going to want to stay fit,

stay in good shape, and will always need some assistance to do so. Weight Watchers can help people do this.

Nike Incorporated

Nike Incorporated is a world power in sports footwear, equipment, and apparel. For over thirty years they have specialized in creating apparel for any athlete. Their products include: watches, polo shirts, audio devices, and footwear for almost every sport. More than ever before, sports are in our lives. On television, in our schools, and even for recreation. Though the Adidas and Reebok companies are rivals in the sports world to Nike, I believe that the sports world recognizes Nike as the dominant leader in sports gear.

Sony Corporation

Sony Corporation is a technological company that was founded in 1946. This entertainment giant creates, designs, and manufactures top of the line electrical products. The electronic equipment that they sell to the customer include the video gaming systems PlayStation and PlayStation2, audio equipment such as compact disc players and portable arm band radios, and video recorders like mini handheld camcorders and digital cameras. This

corporation is not limited to just retail sales. They are also into making, advertising, and distribution of films and television.

Krispy Kreme Donuts Corporation

The Krispy Kreme Donuts Corporation is a specialty retailer that has been open to the public since nineteen thirty-seven. This company does sell coffee and frozen beverages but their specialty product is the donut. Over twenty-five different types of donuts are available to the customers, but the one most famous is by far their original glazed. This glazed treat has made store sales growth go up each year from 9.7%, to 14.1%, to 17.1 starting in nineteen ninety-nine. In two thousand two net income rose 79.1% from the last fiscal year.

4.3 Investment Results

I only traded with two companies but during the trading period I tracked three others. At the beginning of trading I was interested in these three businesses, however didn't make any transactions with them.

Symbol	Paid(\$)	Shares	Value	Sold(\$)	Shares	Change	Percent Change	Gain(\$)
IBM**	73.72	180	14,247	79.15	180	5.43	7.37%	977.4
WTW**	49	300	14,400	48	300	-1	-2.04%	-300

Figure 4.1 Actual trading result

Symbol	Open ¹ (\$)	Close ² (\$)	Trading Period High ³ (\$)	Greatest Percent Change	Regular Percent Change
NKE*	42.31	43.85	48.23	13.99%	3.64%
SNE*	40.45	41.76	45.84	13.33%	3.24%
KKD*	31.95	33.7	35.6	11.42%	5.48%
IBM**	61.08	79.15	83.81	37.21%	29.88%
WTW**	40.83	43.7	50.39	23.41%	7.03%

Figure 4.2 Tracking results

* - Symbols that were tracked

** - Symbols that were traded

Figure 4.1 shows the transactions of the stocks that were traded.

Figure 4.2 represent the tracking of my five companies during the trading period.

¹ Open – the price that symbol opened at on September 24, 2002

² Close – the price that symbol closed at on November 12, 2002

³ Trading Period High – the highest price that symbol reached during the trading period

On average I spent about fourteen thousand dollars on stock with the two business that I traded. If I had bought that much of stock of each company at the time it opened and sold at the time that it reached a high, I would have made thirteen thousand- eight hundred- ninety one dollars and ninety three cents. A change of nineteen point eighty seven percent. If I had bought at open and sold at close I would have then made only six thousand- eight hundred- forty seven dollars and fifty three cents. That would have made nine point seventy nine percent of an increase.

Though I only made about one quarter to one half of what I could have I am happy with the results of my trading. I simulated seven weeks of trading in the stock market, and most importantly did not lose any money in the process. In fact six hundred- seventy seven dollars and forty cents were made. I made five percent of the money that I put in that is a decent amount of money.

Chapter 5. Trading According to Company Earnings

5.1 Trading Strategy

In choosing my company stocks I wanted to look at the latest news that might affect the stock price. I particularly looked at the companies' earnings report. At this time in October companies come out with their latest earnings report. I would buy the company stock a day or two nights before they announced the report was coming out and hope that they would have good earnings. I spent roughly around \$10,000 per stock, ranging from ten dollars per share to fifty dollars per share price. I also, looked if the company was upgraded or downgraded and what the reasons were for the change. I looked for any big events that would effect the stock and if I should buy or sell the stock. I looked up anything related to the industry the company was in to see if the news would affect the company personally. I would like to keep the stock in my position for at least a week or so if the stock came out with good news.

5.2 Stocks Chosen

Accenture Profile

Accenture Ltd. is a management consulting and technology services organization. The Company's consulting and technology services and solutions business is structured around five operating groups: Communications and High

Tech, Financial Services, Products, Resources and Government. Accenture, through its operating groups, provides business and management consulting, technology and outsourcing services and delivers solutions tailored to each client's industry. The Company also has two capability groups, Business Consulting and Technology and Outsourcing, which support the operating groups and provide access to the full spectrum of business and information technology (IT) solutions. Its capability groups comprise service lines and solution units. Service lines are responsible for developing Accenture's knowledge capital, skills and capabilities. Solution units, which are either Accenture affiliate companies or separate groups within the Company, are responsible for creating, acquiring and managing certain key assets.

American Power Conversion Profile

American Power Conversion Corporation (APC), incorporated in March 1981, designs, develops, manufactures and markets power protection and management solutions for computer, communications and electronic applications worldwide. The Company's products include uninterruptible power supply products (UPS), direct current (DC)-power systems, electrical surge protection devices, power conditioning products, precision cooling equipment and associated software, services, and accessories. These products are used with sensitive electronic devices that rely on electric utility power, including, but not

limited to, home electronics, personal computers (PCs), high-performance computer workstations, servers, networking equipment, communications equipment, Internetworking equipment, data centers, mainframe computers and facilities.

Applebee's Profile

During 1998, the Company initiated a strategy to enter into counties with a population of less than 50,000. Applebee's recognizes that small towns represent a market with significant potential. As of December 30, 2001, there were a total of 92 restaurants open in these smaller markets, and the Company anticipates at least 150 restaurants to be opened long-term in small towns. Because of these factors, the Company expects that the Applebee's system will encompass at least 1,800 restaurants in the United States. The Company opened 25 new Applebee's restaurants in 2001 and anticipates opening approximately 25 new Applebee's restaurants in 2002. As of December 30, 2001, there were 1,082 franchise restaurants. Franchisees opened 80 restaurants in 1999, 100 restaurants in 2000 and 84 restaurants in 2001. Applebee's anticipates between 80 and 90 franchise restaurant openings in 2002.

Dell Profile

Dell Computer Corporation, incorporated in October 1987, is a computer systems company and a provider of computing products and services. The Company's primary product offerings include enterprise systems, notebook computers and desktop computer systems. The Dell line of high-performance computer systems includes PowerEdge servers, PowerApp server appliances, PowerVault storage products, PowerConnect networking products, Dell Precision workstations, Latitude and Inspiron notebook computers, and OptiPlex, Dimension and SmartStep desktop computers. The Company also markets and sells Dell/EMC storage products under a long-term strategic relationship with EMC Corporation. The Company provides targeted services for consulting, deployment and support, as well as an extensive selection of peripheral hardware, including hand-held products, and computing software. The Company conducts operations worldwide through wholly owned subsidiaries. Sales outside the United States accounted for approximately 35% of the Company's revenues during the fiscal year ended February 1, 2002 (fiscal 2002).

Family Dollar Store Profile

Family Dollar Stores, Inc. was incorporated in 1969, and all existing corporate entities became wholly owned subsidiaries. It operates a chain of self-service retail discount stores. The Company operates more than 4,400 stores in 40 states that are geared toward helping value-conscious families meet their basic shopping needs. During the fiscal year ended September 1, 2001, 50 stores were closed, 79 stores were relocated within the same shopping center or market area, 131 stores were expanded in size and 184 stores were renovated. All of the stores are occupied under leases, except 221 stores owned by the Company. The Company has announced plans to open approximately 525 stores and close approximately 50 stores during the current fiscal year. From September 2, 2001, through November 1, 2001, the Company opened 78 new stores, closed 21 stores, relocated 10 stores, expanded 18 stores and renovated 15 stores.

General Motors Profile

General Motors Corp. (GM) is a diversified automotive business with additional interests in communications services, locomotives, finance and insurance. GM participates in the automotive industry through the activities of its automotive business operating segments, General Motors Automotive (GMA), which is comprised of four regions: GM North America (GMNA), GM Europe (GME), GM

Latin America/Africa/Mid-East (GMLAAM) and GM Asia Pacific (GMAP). GMNA designs, manufactures, and/or markets vehicles primarily in North America under the following nameplates: Chevrolet, Pontiac, GMC, Oldsmobile, Buick, Cadillac, Saturn, and Hummer. GME, GMLAAM, and GMAP meet the demands of customers outside North America with vehicles designed, manufactured and marketed under the following nameplates: Opel, Vauxhall, Holden, Isuzu, Saab, Buick, Chevrolet, GMC and Cadillac.

Kellogg Company Profile

Kellogg Company, incorporated in 1922, is a producer of ready-to-eat cereal and convenience foods such as cookies, crackers, toaster pastries, cereal bars, frozen waffles, meat alternatives, piecrusts and ice cream cones. The Company's products were, as of December 31, 2001, manufactured in 19 countries and distributed in more than 160 countries. The Company's cereal products are generally marketed under the Kellogg's name.

Mattel Profile

Mattel, Inc., incorporated in 1948, designs, manufactures and markets a broad variety of toy products on a worldwide basis through sales both to retailers and direct to consumers. Mattel's portfolio of brands and products are grouped in three categories: Girls, Boys-Entertainment and Infant and Preschool.

Microsoft Profile

Microsoft Corporation, incorporated in 1981, develops, manufactures, licenses and supports a wide range of software products for a multitude of computing devices. The Company's software products include scalable operating systems for servers, personal computers (PCs) and intelligent devices; server applications for client/server environments; information worker productivity applications; business solutions applications, and software development tools. During the year ended June 30, 2002, Microsoft launched Xbox, its next-generation video game system.

Outback Steak House Profile

Outback Steakhouse, Inc., incorporated in October 1987 as Multi-Venture Partners Inc., operates full-service restaurants under the Outback Steakhouse, Carrabba's Italian Grill, Fleming's Prime Steakhouse & Wine Bar, Roy's and Bonefish Grill brand names. As of December 31, 2001, the Company operated 667 domestic and 72 international Outback Steakhouse, 103 Carraba's Italian Grill, 11 Flemings Prime Steakhouse, 12 Roy's and four Bonefish Grill restaurants. In addition, Outback owned one Lee Roy Selmon's and one Zazarac restaurant under development.

Pepsi Bottling Group Profile

The Pepsi Bottling Group, Inc. (PBG), through bottling operations located in the United States, Canada, Spain, Greece and Russia, manufacture, sell and distribute Pepsi-Cola beverages including Pepsi-Cola, Diet Pepsi, Pepsi One, Pepsi Twist, Mountain Dew, Mountain Dew Code Red, Amp, Lipton Brisk, Lipton's Iced Tea, Slice, Mug, Aquafina, Starbucks Frappuccino, Fruitworks, Sierra Mist, Dole and Sobe in the United States, and 7Up, Pepsi Max, Mirinda and Kas, outside the United States. The Pepsi Bottling Group, Inc. was

incorporated in 1999 as a wholly owned subsidiary of PepsiCo, Inc. (PepsiCo) to effect the separation of most of PepsiCo's company-owned bottling businesses.

PepsiCo Profile

PepsiCo is a world leader in convenient foods and beverages, with revenues of about \$27 billion and over 143,000 employees. The company consists of the snack businesses of Frito-Lay North America and Frito-Lay International; the beverage businesses of Pepsi-Cola North America, Gatorade/Tropicana North America and PepsiCo Beverages International; and Quaker Foods North America, manufacturer and marketer of ready-to-eat cereals and other food products. PepsiCo brands are available in nearly 200 countries and territories. Many of PepsiCo's brand names are over 100-years-old, but the corporation is relatively young. PepsiCo was founded in 1965 through the merger of Pepsi-Cola and Frito-Lay. Tropicana was acquired in 1998 and PepsiCo merged with The Quaker Oats Company, including Gatorade, in 2001.

Pfizer Profile

Pfizer Inc., incorporated in 1942, is a research-based, global pharmaceutical company. The Company discovers, develops, manufactures and markets prescription medicines for humans and animals as well as many consumer products. The Company operates in two business segments: Pharmaceuticals and Consumer Products. The Pharmaceuticals segment includes prescription pharmaceuticals for treating cardiovascular diseases, infectious diseases, central nervous system disorders, diabetes, urogenital conditions, allergies, arthritis and other disorders; products for food animals and companion animals; and the manufacture of empty gelatin capsules. The Consumer Products segment includes self-medications, shaving and fish food and fish care products, as well as confectionery products consisting of chewing gums, breath mints and cough tablets.

Wal-Mart Profile

Wal-Mart Stores, Inc., incorporated in October 1969, is principally engaged in the operation of mass merchandising stores. At January 31, 2002, the Company

operated 1,647 discount stores, 1,066 super centers, 500 SAM'S clubs and 31 neighborhood markets in the United States. Wal-Mart super centers are located in 43 states, and the average size of super centers ranges in size from 90, 000 square feet to 246,000 square feet, with the average size of a super center being approximately 185,218 square feet.

5.3 Investment Results

Accenture Earnings

I bought 819 shares of the Accenture stock on October 7, 2002 for \$12.20 because it was coming out with its earnings on October 10, 2002. I spent \$9991.80. I was taking a chance that it would come out with the same or better earnings. On October 8, Wachovia Securities downgraded it to hold from buy. I decided to hold on to it to see what the earnings would be. It came out with the predicted earnings of .16 cents. Accenture reported quarterly profits fell more than 10 percent. Net revenues for the quarter slipped 3 percent to \$2.69 billion. The company, formerly known as Andersen Consulting, earned \$38.1 million, or 8 cents a share, in the three months ended Aug. 31, compared with \$42.7 million, or 10 cents a share, a year earlier. I held on to the stock from October 7th to October 29th. I bought 819 shares and sold it for \$16.75. I made \$3726.45, 37.30% selling it at \$13718.25.

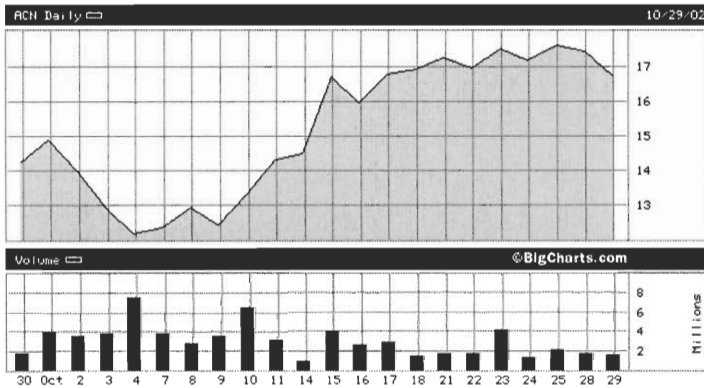


Figure 5.1 Price graph of Accenture Co.

American Power Conversion Earnings

I bought 934 shares of the American Power Conversion stock on October 29, 2002 for \$10.70 because it was coming out with its earnings. I spent \$9993.80. I was taking a chance that it would come out with the same or better earnings that was predicted. It came out with the predicted earnings. On October 31, 2002 Adams Harkness upgraded it to strong buy from buy. American Power Conversion's third-quarter earnings rose, helped by higher sales of power systems and cooling products for data centers. Net income climbed to \$42 million, or 21 cents a share, from \$22.3 million, or 11 cents, the year before. Total sales fell 5 percent to \$337.1 million. The company, based in West Kingston, Rhode Island, was expected to earn 17 cents a share, within a range of 16 cents to 17 cents. I held on to the stock from October 29th to November 12th. I bought 934 shares and sold it for \$14.75. I made \$3782.70, 37.85% selling it at \$13776.50.

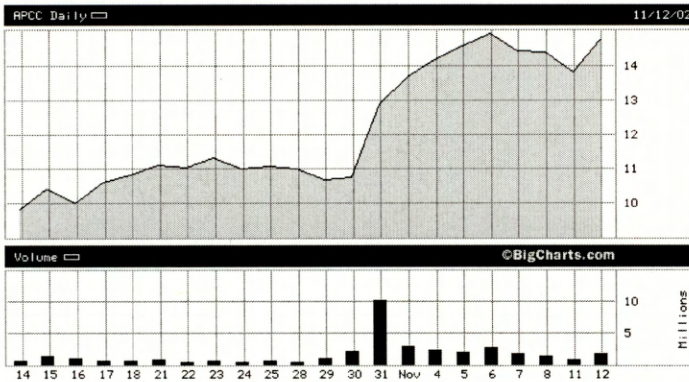


Figure 5.2 Price graph of American Power Conversion

Applebee's Earnings

I bought 427 shares of Applebee's stock on October 29, 2002 for \$23.40 because it was having a conference call to review its third quarter 2002 results and the current business outlook. I spent \$ 9991.80. I was taking a chance that it would come out with good financial results. On November 1, 2002 Raymond James upgraded it to strong buy from outperform. The company, which operates the moderately priced Applebee's Neighborhood Grill & Bar chain, said net income in the quarter ending Sept. 29 raised to \$21 million, or 37 cents a diluted share, from \$16.8 million, or 30 cents a diluted share, a year earlier. I held on to the stock from October 29th to November 12th. I bought 427 shares and sold it for \$24.32. I made \$392.84, 3.93% selling it at \$10384.64.

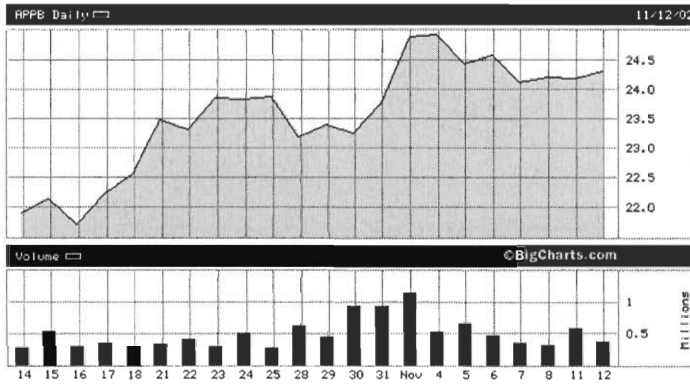


Figure 5.3 Price graph of Applebee's

Dell Earnings

I bought 405 shares of the Dell stock on October 2, 2002 for \$24.64 because Banc of America upgraded it on 10/01/2002 to buy from Market Perform. I spent \$ 9979.20. On October 8, 2002 Pacific Crest initiated it at buy. I decided to hold on to it to see what the good news would do to the stock. Dell Computer Corp. regained the No. 1 spot in the global personal computer market, which grew again for the first time in over a year. I held on to the stock from October 2nd to October 25th. I bought 405 shares for \$24.64 and sold it for \$29.04. I spent \$9979.20 and made \$1782, 17.86% selling it at \$11761.20.

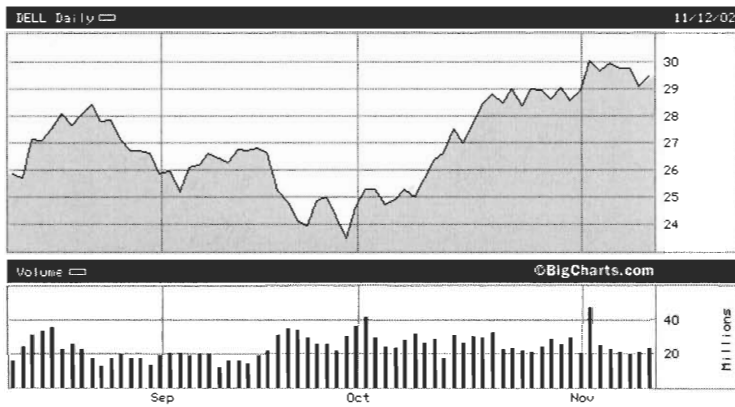


Figure 5.4 Price graph of Dell Co.

Family Dollar Store Earnings

I bought 382 shares of the Family Dollar Store stock on October 2, 2002 for \$26.15 because it was coming out with its earnings. I spent \$ 9989.3. I was taking a chance that it would come out with the same or better earnings that was predicted. It came out with the predicted earnings of .24 cents. I held on to the stock for one day because on the same day the earnings came out, Wachovia Securities downgraded the company to Hold from Strong buy. I sold the stock at \$25.37, losing .78 cents at \$ 9691.34, losing \$ 297.96, 2.98%.

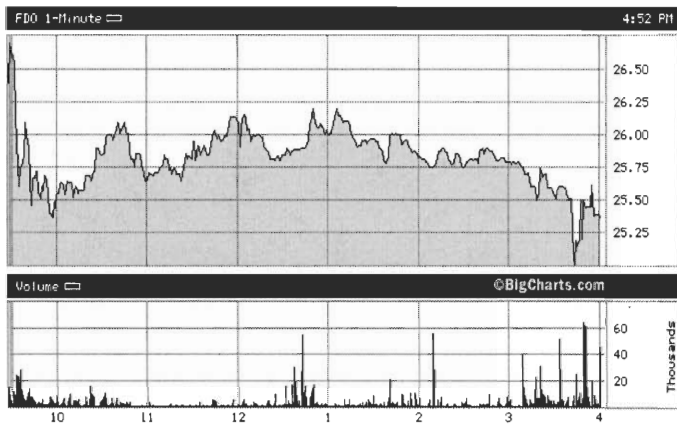


Figure 5.5 Price graph of Family Dollar Store

General Motors Earnings

I bought 262 shares of General Motors (GM) on September 24, 2002 for \$38.16 because three firms upgraded the stock. I spent \$ 9997.92. I held on to the stock for two weeks and ended up losing money. I made money the first few days with this stock but it ended up going back to its original price. I held on to the stock from September 24th to October 7th. I bought 262 and sold it for \$35.88. I lost \$597.36, -597.36% selling it at \$9400.56. Credit Lyonnais, JMP Securities Pacific, Growth Equities all upgraded the stock on September 24, 2002.

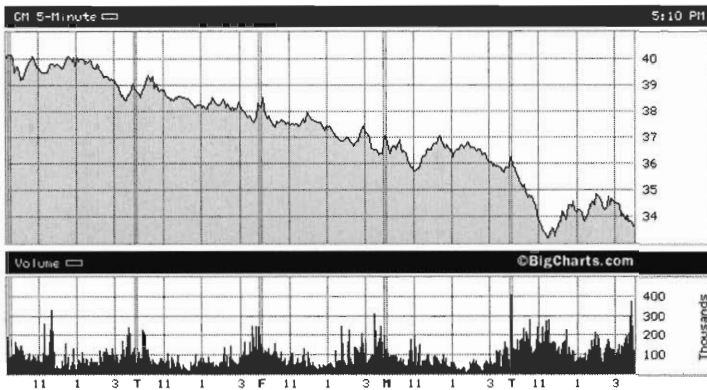


Figure 5.6 Price graph of General Motors

Kellogg's Earnings

I bought 284 shares of the Kellogg stock on October 25, 2002 for \$35.15 because on October 28th was coming out with its earnings report. I spent \$9982.60. I was taking a chance that they would come out with good earnings making the stock price go up. On October 11, 2002 CSFB upgraded it to Outperform from Neutral. I decided to hold on to it to see what the good news would do to the stock. Kellogg reported net earnings were \$203.5 million, or \$0.49 per diluted share, compared to last year's \$150.3 million, or \$0.37 per share. I held on to the stock from October 25th to November 12th. I bought 284 sold it for \$32.02. I lost \$888.92, -8.90% selling it at \$9093.68. I believe I held on to this stock too long. It initially went up but eventually coming back down lower than my original price.

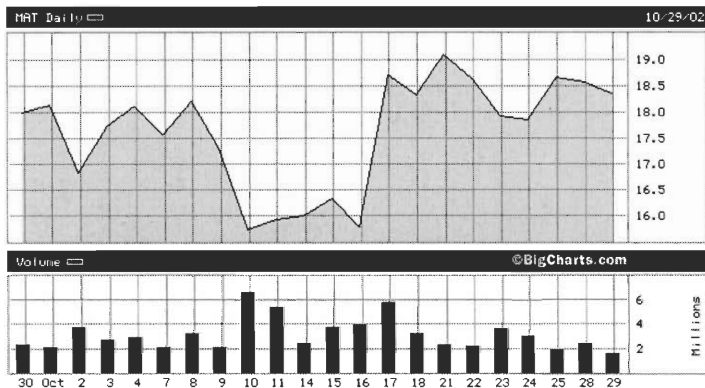


Figure 5.7 Price graph of Kellogg's Co.

Mattel Earnings

I bought 638 shares of the Mattel Store stock on October 17, 2002 for \$15.80 because it came out with good news. I spent \$ 10080.40. I was taking a chance that the good news would increase the stock price. I ended up doing well with this stock. On October 17, 2002 Brean Murray upgraded it to strong buy from buy. Mattel earned \$280.6 million, or 63 cents, in the three months ended Sept. 30, compared with \$199.8 million, or 46 cents per share, in the year-ago period. I held on to the stock from October 17th to October 29th. I bought 638 shares and sold it for \$18.38. I made \$1646.04, 16.33% selling it at \$11726.44.

Microsoft Earnings

I bought 198 shares of Microsoft stock on October 17, 2002 for \$50.41 because it was going to report better quarter growth than its competitors. I spent \$9981.18. I was taking a chance that the good news would increase its stock

price. I only wanted to hold on to this stock for a few days so I could take the risk. Microsoft's first-quarter profit of 50 cents per share, including a \$291 million write-off for investment losses, far exceeded analysts' forecasts of 43 cents per share. At the same time, revenue in the first quarter increased 27 percent to \$7.75 billion, up from \$6.1 billion a year earlier. I held on to the stock from October 17th to October 21st. I bought 198 shares and sold it for \$52.51. I made \$415.80, 4.17% selling it at \$10396.98.

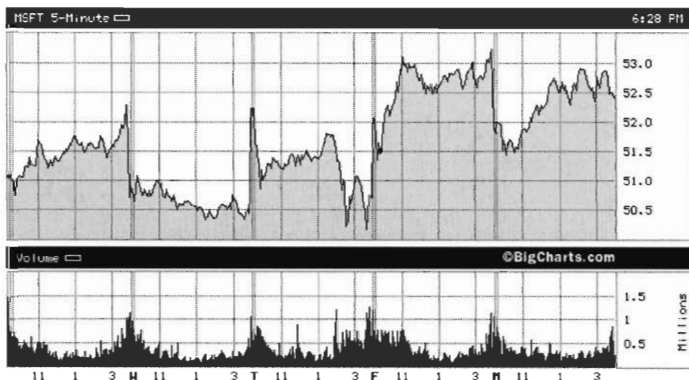


Figure 5.8 Price graph of Microsoft Co.

Outback Steakhouse Earnings

I bought 334 shares of Outback Steak House stock on October 21, 2002 for \$29.90 because it was conducted a conference call to discuss its financial results for the third quarter ended September 30, 2002. I spent \$ 9986.60. I was taking a chance that it would come out with good financial results. On November 4, 2002

CIBC World Markets upgraded it to Sector Perform from Sector Underperform. I held on to the stock from October 21st to November 12th. I bought 334 shares and sold it for \$33.40. I made \$1169, 11.71% selling it at \$11155.60.

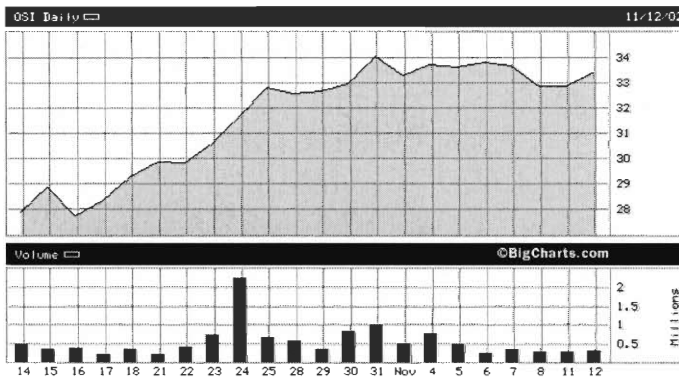


Figure 5.9 Price graph of Outback Steakhouse

Pepsi Bottling Group Earnings

I bought 427 shares of Pepsi Bottling Group on September 30, 2002 for \$23.40 because it was having a conference call to review its third quarter 2002 earnings. I spent \$ 9991.80. I was taking a chance that it would come out with good earnings. It came out with the expected earnings. The Pepsi Bottling Group reported Q3 EPS of \$0.61, net income of \$178 million in line with Wall Street's estimate, and an increase versus the \$0.55 per share, net income of \$162 million in the third quarter 2001. I held on to the stock from September 30th to October 16th. I bought 427 shares and sold it for \$26.20. I made \$1195.60, 11.97% selling it at \$11187.40.

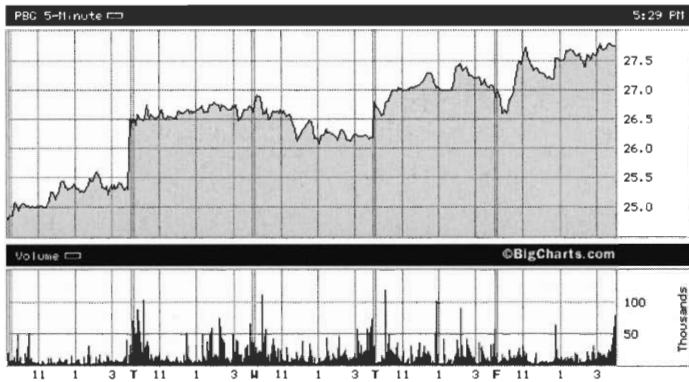


Figure 5.10 Price graph of Pepsi Bottling Group

Pepsi Cola Earnings

I bought 279 shares of Pepsi Cola stock on October 8, 2002 for \$35.78 because it was having a conference call to review its third quarter 2002 results and the current business outlook on, October 8, 2002, at 11:00 a.m. Eastern Time. I spent \$ 9982.62. I was taking a chance that it would come out with good earnings. On October 9, 2002 Goldman Sachs upgraded it to Market Outperform from Market Perform. It came out with better earnings the expected. PepsiCo continued to deliver consistent solid double-digit earnings growth, with fully diluted earnings per share for the third quarter of 2002 up 14% to 56 cents. I held on to the stock from October 8th to November 12th. I bought 279 shares and sold it for \$42.45. I made \$1860.93, 18.64% selling it at \$11843.55.

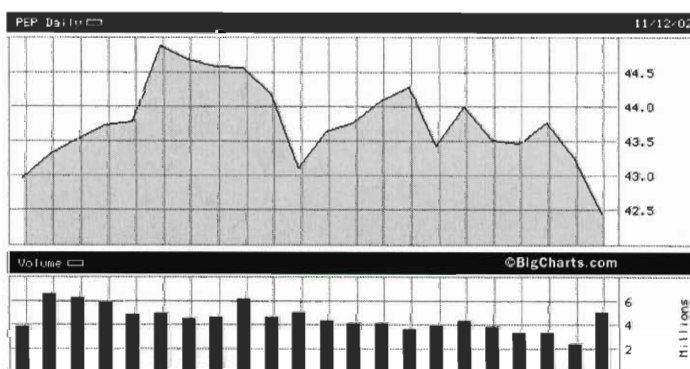


Figure 5.11 Price graph of Pepsi Cola

Pfizer Earnings

I bought 354 shares of the Pfizer stock on September 24, 2002 for \$28.21 because it got approved of the acquisition of Pharmacia. I spent \$ 9986.34. I was taking a chance that the acquisition would greatly approve Pfizer's position as the world leader in pharmaceuticals. I was predicting that Pfizer's would come out with better earnings than predicted. Pfizer Inc.'s third-quarter net income rose 13%, boosted by strong revenue growth across its human pharmaceutical business. The drug giant reported net income of \$2.35 billion, or 39 cents a share, compared with \$2.07 billion, or 33 cents a share, a year earlier. I held on to the stock from September 24th to October 7th. I bought 354 shares for \$28.21 and sold

it for \$31.91. I spent \$9986.34 and made \$1309.80, 13.12% selling it at \$11296.14.

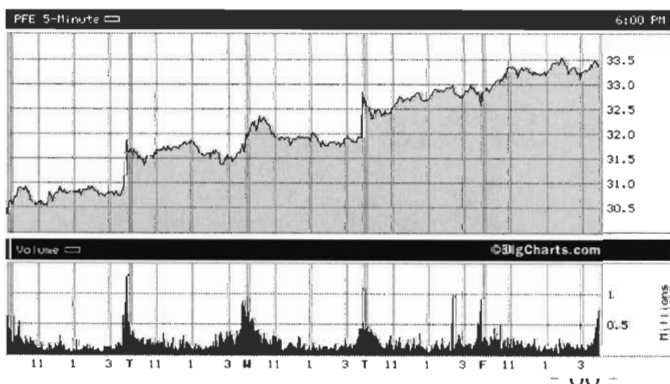


Figure 5.12 Price graph of Pfizer Co.

Overall, I am pleased with how well my stocks performed. My strategy exceeded my expectations of making five percent profit. I lost money on only three stocks I bought, making money on eleven. I spent \$139,783.36 between fourteen companies. I sold all my companies at \$155,782.28 making \$15,998.92, or 9.74% profit. My biggest percent winner, which was also my biggest profit, was American Power Conversion making \$3,782.70, or 37.85%. My biggest loser was Kellogg, losing \$888.92, or 8.9%.

Chapter 6. Short Term Trading

6.1 Trading Strategy

My trading strategy is a short term trading strategy designed to capitalize on short-term corrections and spurts of growth. My strategy is not as dynamic as day trading but still can be used to capitalize on the aforementioned corrections and growth. The reason I used this strategy was so that I had a chance to make a decent percentage of money in the short term without the risk or work of day trading.

My strategy occurred in week increments. On Monday I didn't trade at all and only observed the market. On Monday night I reviewed the big gainers for the day and attempted to determine which stocks would continue in their upward trend for the rest of the week. I bought 3 or 4 stocks on Tuesday morning. I was committed to these stocks and did not sell until the close of Friday. This forced me to stay in even if a stock lost value on Tuesday. The reasoning behind this strategy was that the big gainers of Monday would continue their upward trend for at least the next four days; if this didn't happen for any palpable reason it may have happened only because it was a big gainer on Monday and an increase of investment volume could be expected. I found this strategy to be generally successful but one should be wary of inflated

Monday gains that deflate over the week. I began trading on Monday September 23rd and ended Friday November 8th.

My schedule within the context of my strategy:

Monday: No trading, review the big earners after the close of the market.

Tuesday: Buy 3-4 stocks at the open of the market.

Wednesday, Thursday: No trading, do NOT sell stock even if they lose big.

Friday: Sell stocks at the close of market.

6.2 Stocks Chosen

Coca-Cola

Coca-Cola Bottling Co. Consolidated produces, markets and distributes carbonated and non-carbonated beverages, primarily products of The Coca-Cola Company. In its soft drink operations, the Company holds Bottle Contracts and Allied Bottle Contracts under which it produces and markets, in certain regions, carbonated soft drink products of The Coca-Cola Company, including Coca-Cola classic, caffeine free Coca-Cola classic, diet Coke, diet Coke with lemon, caffeine free diet Coke, Cherry Coke, diet Cherry Coke, TAB, Sprite, diet Sprite, Surge,

Citra, Mello Yello, diet Mello Yello, Mello Yello Cherry, Mello Yello Melon, Mr. PiBB, Fruitopia and Barq's Root Beer

Coca-Cola Bottling produces and markets carbonated and noncarbonated soft drink products of the Coca-Cola Company. For the 39 weeks ended 9/30/02, revenues increased 29% to \$957.4 million. Net income totaled \$23.7 million, up from \$11.1 million. Revenues reflect increased sales volume in conjunction with higher sales to other Coca-Cola bottlers. Earnings also benefited from decreased amortization expense of goodwill and intangibles.

Operating results for the third quarter of 2002 included physical case volume growth of 8% as compared to the same period in the prior year. Operating results for the first nine months of 2002 included physical case volume growth of approximately 6% and approximately flat net revenue per case. Lower interest rates and reduced debt balances resulted in a decrease in interest expense from the third quarter and first nine months of 2001 of \$2.8 million and \$9.3 million, respectively. The Company continues to experience strong free cash flow as evidenced by outstanding debt, which declined to \$774.9 million as of September 29, 2002 compared to \$888.1 million as of September 30, 2001.

First Albany Company

First Albany Companies Inc. is the parent Company of First Albany Corporation (First Albany), First Albany Asset Management Corporation and FA Technology

Ventures Corporation. First Albany is a research driven investment banking and capital markets boutique providing corporate and public finance services and the trading of corporate, government and municipal securities for institutions. First Albany Asset Management Corporation is an investment advisor managing the assets of institutions and individuals. FA Technology Ventures Corporation manages private equity funds, providing venture financing to emerging growth companies.

FACT, through its subsidiary, First Albany Corp., provides investment banking services with brokerage activity in NY and MA. FACT also underwrites municipal and corporate securities. For the nine months ended 9/30/02, revenues rose 12% to \$133.2 million. Net loss from continuing operations rose from \$513 thousand to \$2.1 million. Results reflect increased revenue from principal transactions and investment banking, offset by increased compensation expense and the inclusion of equity losses.

Apple Computers

Apple Computer, Inc. designs, manufactures and markets personal computers and related personal computing and communicating solutions for sale primarily to education, creative, consumer and business customers. Substantially all of the Company's net sales over the last five years have been derived from the sale of its Apple Macintosh line of personal computers and related software and peripherals. The Company offers a range of personal computing products

including desktop and notebook personal computers, related devices and peripherals, networking and connectivity products, and various third-party hardware products. All of the Company's Macintosh products utilize PowerPC RISC-based microprocessors.

AAPL designs, manufactures and markets personal computers and related personal computing and communicating solutions for the sale primarily to education, creative, consumer, and business customers. For the three months ended 12/28/02, revenues rose 7% to \$1.47 billion. Net loss before acct. change totaled \$6 million vs. an income of \$38 million. Revenues reflect an increase in shipments of Macintosh units. Net loss reflects higher S/G/A expenses.

The Company's non-current debt and equity investments are in public companies whose security prices are subject to significant volatility. The fair value of two of these investments is less than the Company's cost basis by a combined total of approximately \$41 million as of June 29, 2002. The Company currently believes these declines in fair value to be temporary based on the relatively short time these investments' cost bases has exceeded their fair value and the financial condition and near-term prospects of both companies. However, should the fair value of these investments remain below the Company's cost bases and/or the financial condition or prospects of either company deteriorate, the Company may determine in a future period that this

decline in fair value is other-than-temporary, requiring an impairment loss be recognized in the period such a determination is made.

Dell Computer Corporation

Dell Computer Corporation is a computer systems company and a provider of computing products and services. The Company's primary product offerings include enterprise systems, notebook computers and desktop computer systems. The Dell line of high-performance computer systems includes PowerEdge servers, PowerApp server appliances, PowerVault storage products, PowerConnect networking products, Dell Precision workstations, Latitude and Inspiron notebook computers and OptiPlex, Dimension and SmartStep desktop computers. The Company also markets and sells Dell/EMC storage products under a long-term strategic relationship with EMC Corporation. The Company provides targeted services for consulting, deployment and support, as well as an extensive selection of peripheral hardware, including hand-held products and computing software.

DELL designs, develops, manufactures, markets and services and supports a range of computer systems, including desktop, notebooks and enterprise systems (including servers and workstations). DELL also markets software, peripherals, service and support programs. For the 39 weeks ended 11/1/02, revenues

increased 11% to \$25.67 billion. Net income rose 92% to \$1.52 billion. Results reflect increased desktop sales, along with the absence of consolidation costs.

During the quarter, the Company further demonstrated the strength of its low-cost structure and efficient direct-to-customer model generating increased operating profitability. Gross margins for the quarter increased sequentially and year over year primarily as a result of a favorable shift in product mix toward enterprise and notebook computer systems and component cost declines resuming normal patterns. Additionally, the Company's continued focus on cost control resulted in Company record-low operating expenses as a percentage of revenue and improved operating margins. By maintaining its strategy of profitable market share growth with a focus on improving overall profitability, management currently expects to continue to capitalize on market opportunities as the industry consolidates.

In addition, cash flow from operations was \$1.4 billion for the first six months of fiscal 2003, and at August 2, 2002, the Company had cash and investments totaling \$8.6 billion. The Company believes that going forward it will continue to generate strong cash flow relative to earnings, that it will grow market share even if the overall market does not grow, and that it is well positioned to capitalize on the economic upturn when it occurs.

6.3 Investment Results

An overall analysis of my trading is that I fared very well. I turned a 10 percent profit in 41 days, surpassing my expectations. Considering the market at the time I was ideally expecting a 5 to 7 per cent gain over this relatively short period. Due to this gain I have to conclude that my strategy is solid one, although far from perfect.

To review my strategy consisted of weekly trading. I would observe the market on Mondays, taking note of the strong gainers of the day. On Monday night I chose 3-5 stocks to invest in at opening on Tuesday. I then sold these stocks on close of Friday. This stock strategy capitalizes on short term stock growths and corrections of the market.

This review has numerous strengths. One of these strengths, as stated above, is that this strategy capitalizes on short term stock growths. These stock growths can be based on actual performances. For example when a company comes out with a new product or with a better than expected earnings report these companies usually have short term growths in the stock market. Short term stock growths also occur based on rumor and inflated earnings predictions. This strategy also takes advantage of corrections of the market. If a stock is in a dip because of deflated earnings report or confidence that the stock will eventually correct itself. Another strength of my strategy is that I noticed after a

big day of gaining a stock usually opens at much lower price on Tuesday. This could be because of the belief that the previous day's earnings were inflated. However if the stocks performance was warranted this allowed me to buy low at the earning price and then profit from the stock's value. Yet another strength of my strategy is that it took relatively little time compared with day trading yet still has the volatility to turn a quick profit and take advantage of short period growths.

Although I think that my strategy is strong, it does have some flaws. For one thing, the strategy forces for me to be locked into trades from Tuesday morning until close on Friday. If a stock bottoms out I am prohibited from selling it. This is very risky and takes a good amount of dedication to the strategy. Another flaw that I noticed was that although most of the stocks I invested in continued their positive gains, the ones that dropped fell at a much higher percentages than the gainers. I think that this occurs for two reasons. The Monday earnings were over inflated, causing the stock to lose its inflated earnings and than could take actual hits from its buying price in addition to these losses. Another possible reason for this occurrence is that when a stock begins to fall after a large gain investors can begin to panic and take their profits. This causes the stock to plummet.

Overall I characterize my strategy as a good one that can make some significant money. I also believe that it is risky and requires a great deal of

commitment, especially when dealing with real money. Overall if you are dedicated and willing to take the risk I would readily recommend this trading strategy.

Symbol	Date bought	Buy price	Shares	Date sold	Sold price	Profit/loss
HAL	37523	12.85	300	37526	13.19	102
AAPL	37523	14.4	1500	37526	14.72	480
FACT	37523	6.11	4000	37526	6.1	-40
AAPL	37530	14.59	1000	37533	14.03	-560
ECLP	37530	5.21	3000	37533	5.95	2220
FAOO	37530	2.61	4000	37533	2.55	-240
AELH	37537	2.57	6000	37540	2.39	-1080
COKE	37537	47	500	37540	47.25	125
DELL	37537	25.06	500	37540	26.41	705
HOTT	37544	19.93	1000	37547	20.97	1040
HOLL	37544	1.86	7000	37547	1.3	-3920
FBNC	37544	23	800	37547	23.65	520
AAPL	37551	14.47	1000	37554	15.42	950
COKE	37551	48.49	300	37554	49.55	318
CHUX	37551	16.15	1000	37554	17.32	1170
FACT	37558	6.25	3000	37561	6.79	1620
CRZO	37558	5	3000	37561	4.81	-570
COKE	37558	50.5	300	37561	52.57	621
COKE	37565	54.16	300	37568	55.36	360
ABANP	37565	9.68	1500	37568	9.89	315
ABFS	37565	30.22	500	37568	29.85	-185

Figure 5.13 Trading Records

Money started with: \$50,000

Spent on Commission: \$420

Total Profit: \$5426

Total money after trading: \$55,006

Chapter 7. Conclusions and Recommendations

The purpose of this analysis was to gain experience and insight into stock market trading. We believe that we accomplished this. The thing that we learned firsthand is the unpredictability of the market. Trades that we thought were highly likely to gain lost huge and vice versa. No matter how certain a trade looked, the market continuously surprised us. It is impossible to be perfect when trading in the stock market.

That being said, if a person uses an intelligent strategy and trades carefully, than money can be consistently made in the market. Although our experience is limited, our trading shows that trading intelligently and arduously will result in making money. Everyone in the group made between a 1-10 per cent return on their investment in roughly seven weeks. Even though not all trades made us money, consistently sticking to a strategy and researching stocks well resulted in eventually coming out ahead. One recommendation would be to decide on a sensible strategy and to stick to it. Although it is very difficult to stay unemotional when money is involved, I believe that when a person does become emotional is when mistakes are made.

One conclusion that will be made from this project is that, even in a bear market, money can be made consistently in the stock market. This has instilled a confidence in the market that is usually shaken by reports of a down market.

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