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## Stock Market Simulation

An Interactive Qualifying Project Report submitted to the Faculty of the WORCESTER POLYTECHNIC INSTITUTE in partial fulfillment of the requirements for the Degree of Bachelor of Science

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## Abstract

The stock market was observed by use of a multi-week simulation. Various trading methods and strategies were explored to develop the experience necessary for successful investing. The results of this project build a basis for a thorough understanding of the nature of the stock market and a solid ground for future investment.

## Acknowledgments

The group completing this project would like to thank Professor Dalin Tang for lending his wisdom and guidance.

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## **Chapter 1: Introduction**

#### 1.1 Our Objective

The objective of the project is to get to know the stock market and different trading strategies by performing a multi-week stock market simulation. Our group will be split into three teams. Each team will deal with a particular aspect of stock trading. In the following chapters, the different techniques of trade used by each team will be defined, discussed, and examined. We will choose a number of stocks to trade, with each team starting from a \$100,000 cash position. We are going to attempt to make a profit, while at the same time become well-educated and knowledgeable so that we may be able to trade effectively in the future. While hoping to make a profit from our trading during this simulation, we understand that much experience is required to become a successful in the stock exchange.

#### 1.2 Stock Market Overview

The stock exchange, or stock market as it is commonly called, is an organized system of trading stocks and bonds. A share of a stock is a portion of the ownership of a company. Companies are divided into equal portions or shares and sold over the exchange; however, one stock owner usually controls over 50% of the company stock. This person is referred to as the principle share holder. The leftover 49% of shares are continually circulating throughout the stock market. The other type of exchange is done with a bond. A bond is a loan that an individual gives to the government with the assumption of a return by a specified date.

There are a few different exchanges within America, but the most recognized would be the NYSE (New York Stock Exchange). This is the oldest and most renowned here in the states, created by Alexander Hamilton in 1792 briefly following the Revolutionary War. Also well known are the Dow-Jones, NASDAQ, and the S&P 500. Previously trading was done by the public, but in this day and age, only stockbrokers are allowed to trade directly. These people buy and sell based on the individual person's request or trust in that particular stockbroker. In return, the broker receives a commission on the trade.

#### 1.3 How to Invest

The process of trading stocks and bonds is actually very easy. But one does not just walk into the market blindly buying stocks that they hope will turn into a profit. Without a great deal of luck, this situation would just end with the investor wasting time and money. Successfully investing would normally include a plan following a great deal of research and time. This method does not guarantee success but you are more likely to make a profit.

The first step to investing would be to research the market. Part of investigating will be to look at companies themselves. Find some companies who's stocks are continually doing well or stocks that seem to follow some continuous patterns or swings. It can be an overwhelming process at first considering the extremely large amounts of companies in the market. To lighten the load, you may want to pick a few that you know of such as a large chain of department stores or your cellular phone service provider. If you feel comfortable about your interactions with these companies, chances are that other customers feel the same way. This could be a sign that the company is doing well, and if

the company is doing well there is a good chance that their stock prices will be trending upward.

The next step is to narrow down to a reasonable amount of companies you want to investigate. This will depend on how much money and time you are willing to spend on your investment. Now that you have narrowed your choices down you will have to designate a period of time to research the patterns that the company's share values follow. There are many patterns a particular stock can follow if it follows any pattern at all. Some patterns may be a slow and steady rise or an oscillation. While watching for these patterns you might want to check on the company itself. Any information you can gather about the particular company can tip you off to whether it will be a successful investment or not. If available visit the company to get an experience of how it operates. You want to feel comfortable about your potential investment. After all you are buying a piece of a company.

#### **1.4 Trading Strategies**

The four methods of trading that we will examine are swing trading, long and short term trading, and position trading. Swing trading is an extended version of day trading. This method is very stressful to those who do it for a living. It deals with watching each stock very closely to determine the ups and downs, and try to predict when those will be. With swing trading, the stock is usually held between four days and two weeks. The ideal approach to this would be to buy low and sell high in a very short time, while still maintaining a decent profit. Long term trading is when the stock is held for an extended period of time, usually with a stable company, in the hopes that the price will gradually increase. As with swing trading, short term trading is aimed towards making the "quick buck". The difference is that short term trades are relying on a breakthrough or a quick increase with a more stable company, rather than an up and down one. Finally position trading is very similar to short term trading and swing trading in the sense that the trader attempts to predict a quick fluctuation with the stock. A position trader is usually willing to hold a stock for multiple weeks, or even months in anticipation. These are the basic strategies utilized when trading in the stock market today, but it is important to understand that each strategy can be utilized in different ways. In essence, every trader has his or her own individual approach utilizing different techniques and information built up over years of experience.

#### 1.5 Our Overall Plan

With the overall goal of learning how to become a successful trader in mind, we decided to break our group of six into three groups of two. Each group has been assigned a specific trading strategy to research and explore. Group one will be responsible for long and short term trading, group two will be utilizing the swing trading method, and finally group three will explore the technique of position trading. While position trading and swing trading are almost the same, the approach of the two groups will be different, thus becoming separate techniques all together. Fundamental analysis will be used by the position trading group, while the swing trading group will focus more on technical analysis.

The plan is for each group to research and become familiar with their assigned and scan the stock market for prospective trades that can be made with those strategies. Following this period of research we will enter the ten week simulation period in which each group will be granted a sum of 100,000 dollars to use for trading. Following the ten week simulation we will enter an analysis period in which each group will analyze their trades from the simulation in order to obtain useful information that will make our trading in the real market more successful. The following chapters are a summary of all the research, trading and analysis that each group has accomplished for the project.

## **Chapter 2: Long Term Trading**

#### 2.1 What is Long Term Trading?

Long term trading is buying stocks and holding them for a period of six months to years. Often times stocks fluctuate, but they have historically returned a gain over a long period of time. This is the biggest advantage to long term investing. It allows you to ride out the downs in the market. Long term trading is the type that most common traders should involve with. Common traders are those traders who have some money investing in a savings account, but are sick of it not growing with very much interest. They aren't planning on touching that money for years anyway so they decide to invest it. Well that is were long term trading comes in. It is a great tool to make you're money grow. It is rare for people to get rich off of long term investing, but most of the time approximately around 75 % they make a great deal more than they would if the money were in a savings account. The amount of percentage of people who at least break even with long term investing is even higher. It is up around 90 %. This is because, with proper research, long term trading is a very safe investment. Other types of trading are sometimes hit or miss, but with long term trading the opposite is true. The key to this type of investing is picking a stock that is not going to lose money. A common mistake that people make when investing is trying to find a stock that is going to make the most money over their investment period. This is a good philosophy for certain types of trading, but not long term trading. If an investor looks for the stocks that aren't going to lose money, they are more than likely going to make money. This is because no stock stays stable in the stock market. They are all either going up or down. Therefore if a stock is not losing money than it is making it, maybe not by leaps and bound, but it is making money.

#### 2.2 Signs of a Successful Long Term Stock

The companies to invest in for long term trading are known as blue chip stocks. These companies have a history of being well run. This is the reason they make money. John Price, PhD, says that the key to finding a good long term stock is "sustainable competitive advantage." This means that a company has to be able to have a competitive advantage over its competition that can be maintained. This advantage can come from many places, such as products, personnel, organization, management, and brand availability. However, these factors alone are not enough. In the words of Benjamin Graham, known as the dean of Wall Street, investors need a margin of safety. This is something that will keep their stock from doing poorly due to a better company wiping away theirs. John Price uses the example of shopping malls. When an investor looks into buying stock in a shopping mall, they look at the surroundings. Most people are not willing to drive long distances to go to another mall, even if it is slightly better. This is the margin of safety for their mall. It has, in a way, monopolized the region it is in. No other shopping malls are going to be built close by because it is not needed. Another way for an investor to maintain their margin of safety is by economic factors. If the cost of making a product is drastically reduced by the quantity produced, it is hard for a smaller company to compete with the larger ones. John Price uses the example of Intel computer chips. For a company to start making computer chips at the same level of Intel without the same quantity that company would have to charge thousands more for the same chip. This gives the smaller company a distinct disadvantage because the consumer is not willing to pay more for the same product. Another margin of safety factor is brand names. Consumers trust brands that have been around for long periods of time. Look at

cereal companies for example. Grocery stores carry the same cereal of the large brands, Kellogs for example, but charge less than the brand name. Consumers, though, trust the names that recognize and have trusted for years. The biggest way to have safety in a company is if the people in the company believe in it. This is a very hard aspect to judge, unless an investor actually works within the company. John Price says the best way to judge this is to watch the papers closely for this company. Look for any unrest or frequent labor turn over. These are usually signs a company and its employees are not working well together. Looking at all of these factors is the best way to decide which companies will give the best return in long term investing. All of this information was taken offline from <u>http://www.sherlockinvesting.com/articles/threewords.htm</u>, an article written by John Price.

#### 2.3 Stocks Chosen

For our long term investing simulation we have picked two stocks. They are General Electric and Boeing. We picked General Electric because of its advantages over its competitors. General Electric because of its broad array of businesses. General Electric has businesses ranging from health care to energy. This assures a large margin of safety because it is a virtual diversification by just investing in one company. If a few of GE's businesses have a poor term they are brought up by their others. GE energy is one of GE's largest businesses. They are one of the world leaders in energy and energy technologies and have been for many years. The quality that GE has been producing for years allows it to have the brand recognition. Another GE business leader is GE Consumer and Industrial. This is the company that produces the GE appliances. This business is the industry leader in major appliance, lighting and integrated industrial equipment, systems and services. General Electric has "sustainable competitive advantage," and is as much of a guaranteed money maker as there can be in the stock market. General Electric has been a public company for quite some time. It has continually made an upward trend almost being exponential until around 2000 when it declined. It declined for some years before it was able to turn around and start making money. This is evident by the graph of GE's stock over the companies public life:

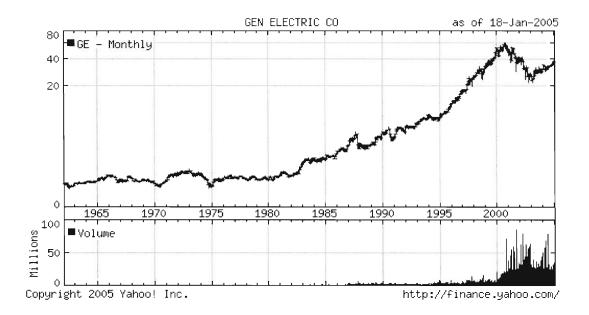


Figure 2.1Long Term Price Action of General Electric

We also looked at the two year profile of General Electric. This gave us confidence that it would do well as a long term stock. We saw that General Electric appeared to be continuing its upward trend that it had from the beginning of the company. Below is the graph of GE's previous two years showing how it was continuing to make a comeback.

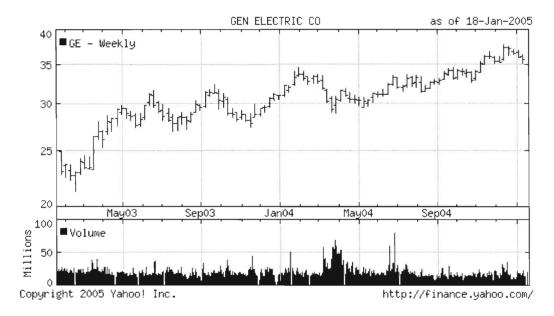


Figure 2.2 Price Action for General Electric in the Past Year

Our other long term stock is Boeing. Boeing also has distinct advantages over its competitors, one of which is its history. Boeing has been around for as long as people have been flying. Boeing has been the number one producer of commercial airliners for forty years. This has allowed their name to become trusted by consumers. In the aviation business having a well known name is a very large advantage to a company. Consumers will buy from Boeing because they know that their commercial airliners have been tested over the years and are safe. Boeing is also a market leader in military aircraft, satellites, missile defense, human space flight, and launch systems and services. This means that Boeing is also a well diversified company. With Boeing having its part in almost all aspects of the aerospace market allows it to do well even if it is not doing well in every department. Boeing is similar to GE in this manner. As stated before, Boeing is has a large part in the production of military aircraft. With the state of the US military and all the money that is being put into defense, investing in a company that is going to see a large part of the money is a great idea. We are also predicting that commercial airliners are going to be in the rise. After the September 11<sup>th</sup> tragedy most people shied away from air travel and air line companies took a dive in the stock market. But now, three years later, air travel is once again going to be making a rise and Boeing is the leader of this field. Boeing, being such a large company, is also ready to keep up with the growing field. Boeing has is predicting that China will have 2,300 new commercial aircraft by 2023. Since Boeing is the world's leader in commercial aircraft it will see a boom while China produces those aircraft. Boeing, just like General Electric, has "sustainable competitive advantage." This comes from its years of experience and its quantity that it produces. Boeing has also had quite a bit of success in the stock market. Boeing over the companies public life span has steadily increased and shows no signs of slowing down. As is evident from the chart below Boeing has done very well for itself as a stock.

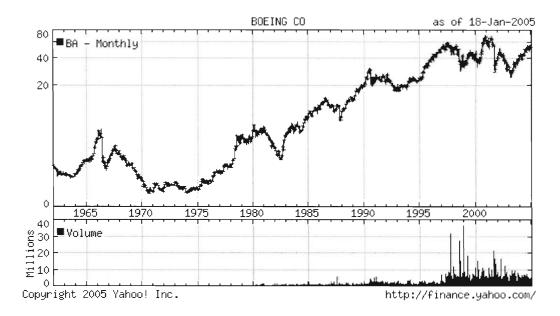


Figure 2.3 Long Term Price Action for Boeing

Boeing has also recently shown signs of improvement, and with all the new innovations and contracts that Boeing has been getting to build new planes there is no sign of it slowing down. When we researched stocks to pick we looked at Boeing performance over the past 2 years. It showed quite a strong upward trend with only minor downs, as can be seen from the chart below. This is one of the traits to look for in a long term stock.

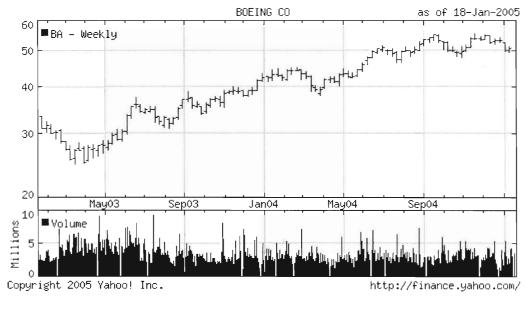


Figure 2.4 Price Action of Boeing for the Past Year

In the end, after all of our research, we decided to invest our money into those two stocks. We split our money in half and invested fifty percent into General Electric and fifty percent into Boeing, or as close as we could come.

#### 2.4 Analysis

The analysis part for an investor in long term trading is no where near as involved as for an investor doing swing trading. For these stocks we watched them everyday. Even if they made a drop, we didn't sell them, and that is the essence of long term trading. For Boeing it has gained a little almost everyday and didn't dip down and take major losses. These are good qualities for a long term company. Below are the numbers that we followed for Boeing (table 2.1) and General Electric (table 2.2). In these tables the most important numbers were the open and close. With long term trading we were not concerned with the highs and lows that the stock took during the day.

Date	Open	High	Low	Close	Volume	Adj Close
16-Dec-04	52.40	52.49	51.79	52.08	3,512,700	52.08
15-Dec-04	52.78	52.78	52.29	52.40	3,598,200	52.40
14-Dec-04	52.92	53.02	52.49	52.64	3,101,600	52.64
13-Dec-04	54.37	54.37	52.26	52.67	2,921,900	52.67
10-Dec-04	52.63	52.99	52.33	52.42	4,107,600	52.42
9-Dec-04	52.68	52.99	52.20	52.78	4,347,100	52.78
8-Dec-04	53.95	53.98	52.42	52.80	4,284,000	52.80
7-Dec-04	54.75	55.00	53.72	53.75	2,738,000	53.75
6-Dec-04	55.26	55.26	54.52	54.75	2,272,900	54.75
3-Dec-04	54.92	55.29	54.60	55.26	3,358,700	55.26
2-Dec-04	54.50	54.90	54.30	54.86	2,433,500	54.86
1-Dec-04	53.60	54.70	53.57	54.70	2,976,100	54.70
30-Nov-04	53.45	54.04	53.44	53.57	2,455,500	53.57
29-Nov-04	54.02	54.38	53.28	53.62	2,666,800	53.62
26-Nov-04	54.13	54.24	53.90	54.02	1,456,100	54.02
24-Nov-04	54.33	54.50	53.76	54.12	3,231,200	54.12
23-Nov-04	53.96	54.34	53.41	54.33	3,228,500	54.33
22-Nov-04	53.76	53.97	53.25	53.97	3,036,900	53.97
19-Nov-04	<u>54.85</u>	54.85	53.77	53.77		
19-Nov-04	<u> </u>	55.48			2,915,200	53.77
			54.65	54.85	3,064,900	54.85
<u>17-Nov-04</u>	54.30	55.22	54.24	54.75	4,262,400	54.75
16-Nov-04	54.00	54.16	53.72	54.00	2,752,200	54.00
15-Nov-04	53.85	54.23	53.61	54.03	3,782,300	54.03
12-Nov-04	54.20	54.39	53.52	53.93	2,654,800	53.93
<u>11-Nov-04</u>	53.41	54.32	53.41	54.30	4,110,600	54.30
<u>10-Nov-04</u>	52.82	53.45	52.74	53.40	4,082,800	53.40
<u>9-Nov-04</u>	51.85	52.89	51.60	52.51	4,092,700	52.51
9-Nov-04	\$ 0.		Cash Di			
<u>8-Nov-04</u>	51.15	52.48	51.06	52.07	4,025,700	51.87
<u>5-Nov-04</u>	50.80	51.37	50.41	51.15	4,379,900	50.95
<u>4-Nov-04</u>	50.85	50.92	50.17	50.59	4,875,700	50.40
<u>3-Nov-04</u>	51.00	52.10	50.94	51.15	5,451,100	50.95
<u>2-Nov-04</u>	50.05	50.54	49.66	49.88	2,806,900	49.69
<u>1-Nov-04</u>	50.10	<u>5</u> 0.17	49.65	49.95	2,526,500	49.76
29-Oct-04	49.97	50.22	49.80	49.90	2,720,200	49.71
28-Oct-04	50.11	50.45	49.54	49.87	4,138,500	49.68
27-Oct-04	51.00	51.25	49.80	50.10	5,435,700	49.91
26-Oct-04	48.82	50.17	48.65	49.98	3,880,000	49.79
25-Oct-04	49.05	49.32	48.10	49.00	4,022,100	48.81
22-Oct-04	49.50	50.10	49.07	49.51	2,456,400	49.32
21-Oct-04	48.95	49.98	48.81	49.56	3,704,100	49.37
20-Oct-04	49.30	49.55	48.30	48.96	3,242,100	48.77
19-Oct-04	49.10	50.00	48.85	49.21	3,186,000	49.02
18-Oct-04	49.55	49.83	49.25	49.59	3,079,100	49.40
15-Oct-04	50.50	51.28	50.18	50.19	3,467,700	50.00
14-Oct-04	50.15	51.00	50.15	50.25	3,048,600	50.06
13-Oct-04	50.71	51.09	49.92	50.23		
12-Oct-04		50.56			2,272,300	50.04
	50.27		49.81	50.40	2,509,300	50.21
11-Oct-04	50.11	50.49	49.97	50.26	2,236,000	50.07

### Table 2.1 - Opening and Closing Prices of Boeing

We started off buying 994 shares of Boeing stock at \$50.26 a share, and when we

finished our simulation Boeing closed at \$52.08 a share. That means a total gain of \$1809. For long term stocks this is a rather significant gain. This correlates to a gain of almost four percent. When most people buy long term stocks they invest thousand of dollars into their stocks. If one were to invest in \$1000 and return a yield of four percent, they would make \$40 in ten weeks. This does not seem like an incredible amount of money, but in long term trading investments are suppose to be kept for years. So if we were to keep this stock for two years, and it was to continue gaining four percent every ten weeks it would gain approximately twenty percent in one year. So that one thousand dollar investment would gain four hundred dollars over two years. This is quite a significant gain. Now if we had kept our stock for two years and it had continued to grow so that we returned a gain of twenty percent, our initial investment of \$49958.44 would have turned into \$59950.12. This results in a net gain of \$9991.68. That is almost ten thousand dollars just for letting money sit in an account. If we had let our investment of go over the two year time span to make it a true long term stock, and it continued to gain almost four percent every ten weeks, we would have made a substantial amount of money

Date	Open	High	Low	Close	Volume	Adj Close
16-Dec-04	37.30	37.49	37.00	37.11	23,825,700	36.89
15-Dec-04	37.39	37.51	37.01	37.39	20,391,100	37.17
14-Dec-04	37.39	37.75	37.18	37.38	26,370,400	37.16
13-Dec-04	36.85	37.52	36.82	37.48	28,195,500	37.26
10-Dec-04	36.15	36.81	36.00	36.69	32,039,000	36.47
9-Dec-04	35.58	36.09	35.50	36.02	15,881,900	35.81
8-Dec-04	35.65	35.90	35.54	35.71	16,388,600	35.50
7-Dec-04	35.60	35.65	35.27	35.31	18,764,000	35.10
6-Dec-04	35.65	35.77	35.59	35.67	11,704,500	35.46
3-Dec-04	35.84	36.03	35.65	35.83	15,164,900	35.62
2-Dec-04	35.85	36.09	35.75	35.94	15,978,300	35.73
1-Dec-04	35.36	36.02	35.36	36.02	21,709,800	35.81
30-Nov-04	35.30	35.61	35.30	35.36	23,067,400	35.15
29-Nov-04	35.57	35.73	35.12	35.30	21,630,500	35.09
26-Nov-04	35.60	35.63	35.44	35.44	7,889,900	35.23
24-Nov-04	35.85	36.00	35.56	35.64	16,805,700	35.43
23-Nov-04	35.97	36.04	35.49	35.81	21,021,100	35.60
22-Nov-04	36.25	36.27	35.94	36.09	15,358,700	35.88
19-Nov-04	36.83	36.83	35.94	36.27	21,810,500	36.06
18-Nov-04	36.40	36.86	36.38	36.83	15,703,100	36.61
17-Nov-04	36.28	36.80	36.10	36.35	18,648,200	36.13
16-Nov-04	36.05	36.24	35.85	36.10	13,142,000	35.89
15-Nov-04	36.25	36.27	35.95	36.10	14,334,400	35.89
12-Nov-04	35.97	36.25	35.83	36.25	18,832,400	36.04
11-Nov-04	35.42	35.88	35.40	35.80	14,375,300	35.59
10-Nov-04	35.48	35.60	35.30	35.32	17,046,000	35.11
9-Nov-04	35.02	35.44	35.02	35.42	15,814,700	35.21
8-Nov-04	35.09	35.22	34.92	35.12	13,419,300	34.91
5-Nov-04	35.20	35.40	34.78	35.19	20,886,500	34.98
4-Nov-04	34.36	35.09	34.33	35.09	25,234,000	34.88
3-Nov-04	34.40	34.45	34.03	34.33	18,906,600	34.13
2-Nov-04	33.95	34.38	33.90	34.05	16,923,000	33.85
1-Nov-04	34.10	34.14	33.81	34.05	12,919,200	33.85
29-Oct-04	33.90	34.15	33.80	34.12	18,331,000	33.92
28-Oct-04	33.80	34.15	33.71	34.03	14,379,900	33.83
27-Oct-04	33.57	33.95	33.35	33.95	16,688,900	33.75
26-Oct-04	33.10	33.65	32.90	33.63	20,066,700	33.43
25-Oct-04	33.10	33.10	32.65	32.90	14,662,900	32.71
22-Oct-04	33.37	33.45	32.74	32.95	16,494,100	32.75
21-Oct-04	33.15	33.50	33.00	33.37	16,663,700	33.17
20-Oct-04	33.48	33.54	33.06	33.22	16,417,300	33.02
19-Oct-04	33.88	34.10	33.42	33.43	16,378,800	33.23
18-Oct-04	33.40	34.03	33.22	33.89	15,138,600	33.69
15-Oct-04	33.52	33.78	33.40	33.55	15,138,600	33.69
14-Oct-04	33.70	33.80	33.40	33.55		
13-Oct-04	34.25	33.80	33.55	33.46	12,660,400	33.26
12-Oct-04	33.80	34.20	33.55	34.02	15,327,300	33.51
12-001-04	33.00	34.20	33.70	34.02	12,101,400	33.82

Table 2.2 - Opening and Closing Prices of GE

Just like the Boeing table, we didn't pay much attention to the other columns other than opening price and closing price. We did, however, pay attention to the daily highs and lows to make sure that the stock wasn't jumping all over the place. If it were to make large daily or increases or decrease, even if they didn't lead too much of a change in the closing price we would have sold it. If it were jumping around like that, it would have been a sign of an unstable stock, which is not what you want for a long term stock.

For General Electric we bought more shares than we did with Boeing because it was less expensive. We bought 1,471 shares at 34 dollars a share. Our original investment was \$48,718.00. When we finish the simulation General Electric was worth \$37.11 a share. This means that our profit was \$3,866.87. This is not much of a gain compared to most other types of investing over this much time. The good thing about this is that there was no money lost. The main goal of long term investing is to find the steady stocks that are going to gradually increase in price over time. General Electric is clearly one of those stocks that gains money over certain periods of time.

The final table (Table 2.3) for our long term section is a table of closing prices profit and total money for everyday of our simulation. This isn't as important as for some of the other trading types, but it is still a good habit for long term investors to get into. If they start to lose too much money it can clearly be seen on their table. It is also not a difficult spread sheet to set up on Microsoft Excel.

Date	adj. close GE	Profit GE	adj. close Boeing	Profit Boeing	Total Money
16-Dec-04	36.89	4546.19	52.08	1997.94	106544.13
15-Dec-04	37.17	4958.07	52.4	2316.02	107274.09
14-Dec-04	37.16	4943.36	52.64	2554.58	107497.94
13-Dec-04	37.26	5090.46	52.67	2584.4	107674.86
10-Dec-04	36.47	3928.37	52.42	2335.9	106264.27
9-Dec-04	35.81	2957.51	52.78	2693.74	105651.25
8-Dec-04	35.5	2501.5	52.8	2713.62	105215.12
7-Dec-04	35.1	1913.1	53.75	3657.92	105571.02
6-Dec-04	35.46	2442.66	54.75	4651.92	107094.58
3-Dec-04	35.62	2678.02	55.26	5158.86	107836.88
2-Dec-04	35.73	2839.83	54.86	4761.26	107601.09
1-Dec-04	35.81	2957.51	54.7	4602.22	107559.73
30-Nov-04	35.15	1986.65	53.57	3479	105465.65
29-Nov-04	35.09	1898.39	53.62	3528.7	105427.09
26-Nov-04	35.23	2104.33	54.02	3926.3	106030.63
24-Nov-04	35.43	2398.53	54.12	4025.7	106424.23
23-Nov-04	35.6	2648.6	54.33	4234.44	106883.04
22-Nov-04	35.88	3060.48	53.97	3876.6	106937.08
19-Nov-04	36.06	3325.26	53.77	3677.8	107003.06
18-Nov-04	36.61	4134.31	54.85	4751.32	108885.63
17-Nov-04	36.13	3428.23	54.75	4651.92	108080.15
16-Nov-04	35.89	3075.19	54	3906.42	106981.61
15-Nov-04	35.89	3075.19	54.03	3936.24	107011.43
12-Nov-04	36.04	3295.84	53.93	3836.84	107132.68
11-Nov-04	35.59	2633.89	54.3	4204.62	106838.51
10-Nov-04	35.11	1927.81	53.4	3310.02	105237.83
9-Nov-04	35.21	2074.91	52.51	2425.36	104500.27
8-Nov-04	34.91	1633.61	51.87	1789.2	103422.81
5-Nov-04	34.98	1736.58	50.95	874.72	102611.3
4-Nov-04	34.88	1589.48	50.4	328.02	101917.5
3-Nov-04	34.13	486.23	50.95	874.72	101360.95
2-Nov-04	33.85	74.35	49.69	-377.72	99696.63
1-Nov-04	33.85	74.35	49.76	-308.14	99766.21
29-Oct-04	33.92	177.32	49.71	-357.84	99819.48
28-Oct-04	33.83	44.93	49.68	-387.66	99657.27
27-Oct-04	33.75	-72.75	49.91	-159.04	99768.21
26-Oct-04	33.43	-543.47	49.79	-278.32	99178.21
25-Oct-04	32.71	-1602.59	48.81	-1252.44	97144.97
22-Oct-04	32.75	-1543.75	49.32	-745.5	97710.75
21-Oct-04	33.17	-925.93	49.37	-695.8	98378.27
20-Oct-04	33.02	-1146.58	48.77	-1292.2	97561.22
19-Oct-04	33.23	-837.67	49.02	-1043.7	98118.63
18-Oct-04	33.69	-161.01	49.4	-665.98	99173.01
15-Oct-04	33.35	-661.15	50	-69.58	99269.27
14-Oct-04	33.26	-793.54	50.06	-9.94	99196.52
13-Oct-04	33.51	-425.79	50.04	-29.82	99544.39
12-Oct-04	33.82	30.22	50.21	139.16	100169.38
11-Oct-04	33.8	0.8	50.07	0	100000.8

#### Table 2.3Table Showing Details of Growing Assets

For our total long term investing. We invested approximately \$100,000 into two different stocks. We kept both stocks without trading them for the full ten weeks of simulation. After the simulation we sold them and counted our profits. Our biggest profit came from our shares in Boeing. We gained \$9991.68 from our original investment of \$49958.44. For General Electric we gained \$3,866.87 from our original

investment of \$48,718.00. So all together we invested a total of \$98,676.44 and gained \$13,858.5. That leaves our total amount of money after selling to be \$112,534.99. That is a large amount of money to make in a ten week period. This is probably one of the best scenarios that can be seen from the stock market. The other side, the side that didn't happen to our long term stock, is that the stocks lose money instead of gaining it. The only way to avoid that situation is to research a company before you invest in it. There is no way of actually being able to eliminate the risk in the stock market, but with proper research and techniques the risk can be lowers greatly. This is evident by our long term investments.

#### 2.5 Conclusions

The goal of our long term trading was to find two stocks that continually gained little amounts of money over our entire trading period. This goal was accomplished with both our long term stocks, Boeing and General Electric. There is no way to predict the stock market or what makes a stock do well. We picked Boeing and General Electric based on their long term performance over the span of the companies. We also picked them based on the outstanding success they have had as a company. Although a company's success is not directly correlated to their stocks success they are definately related. As the demand for their stock goes up so does the price of their stock. Since Boeing and General Electric are such outstanding companies, we knew they would make good long term stocks.

## **Chapter 3: Short Term Trading**

#### 3.1 Introduction

This chapter is describing the short term trading aspect of the simulation that we are performing. Short term trading is the practice of trading stock over a short period of time with the goal of having an almost immediate result. We were allowed one hundred thousand dollars of simulation money to invest in as many stocks as we wanted to in order to demonstrate what can happen to an investment over the two month period in which we tracked the stocks. We decided that in order to perform this task we should split the money evenly between two companies and see if we would be able to turn a profit or if we would suffer a loss.

The first thing that we needed to know was what makes a successful short term stock. We discovered that in order for a short term stock to be successful it needs to be one that is going to have a rise in overall value on a consistent basis. The difference between short term investing and long term investing is that with short term investing the time over which the company's value is increasing consistently does not need to be nearly as long. The time period can be over a month, a week, a day, or even just a few hours. The other aspect was that of whether or not there were significant changes taking place within the company that would cause the stock price to increase and possibly sustain this level of increase. Those were the ultimate factors in our decision making process.

The second task that was set before us was selecting which stocks to invest in. Having decided what factors would make for a successful stock we began looking through financial reports and trends that would set us in the right direction towards picking the two companies to invest in. The two companies that we chose to invest in were Google, an internet search engine, and Advanced Micro Devices, a company that specializes in processors and other parts for computers. We decided to split the money evenly between these two companies purchasing 369 shares of Google at roughly 135 dollars a share and 3590 shares of AMD at roughly 13 dollars a share. These companies were both experiencing exciting new changes within their companies with stock of Google being offered to the public for the first time and AMD having recently opened a new distribution center in China.

The most important part of this whole simulation was the analysis. This took place during the simulation and then afterwards. Everyday we checked up on the stocks closing prices to see if they were making improvements or if it was time to dump the stock and move on to another company. Our process was quite simple for this type of trading because of the great results we were seeing from our stocks. The nearly constant increase in value of the stock in both of these companies made our choice simple because if we had sold them we would have ended up buying them again but for a much greater price therefore limiting the number of stock we could purchase. The amount of money that we would have made in this simulation was incredible considering the state of the market today, but results like these prove that no matter the state of the market there are always opportunities to make a profit even in the bleakest of times. The results we received were a direct result of our preparation and a small amount of good fortune.

This simulation can instill some knowledge into the proper way to invest in a short term manner in order to get the best results possible. The way to chose a company to invest in, the qualities that should be found in the company in order to know a good result will become of the investment, and how to properly follow the stock.

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#### 3.2 What makes a successful short term stock?

When investing in a short term stock the investor is looking for an immediate gain. Whether the gain takes place over a day or a month the idea is to make money fast and then sell the stock for a profit. The companies that are good targets for this type of investment are companies that are expecting to make a merger or introducing a new product that will increase the company's value. For example when AT & T wireless and Cingular merged earlier this year the value of stock for AT & T wireless increased two dollars instantly at the time of the merger. If an investor had purchased a significant amount of stock in this company they would have made a very large profit at that time.

One of the companies that we decided to invest in were Google. Google made its initial public offering on August 18<sup>th</sup> of this year. The nature of this company as a successful search engine, and the fact that it was being traded publicly for the first time, made this company a terrific short term investment. The company was initially offered at 85 dollars and we purchased it at 135 dollars and in a few short months the price of the stock rose 54 dollars to 189 dollars. If sold at this price the profit would be very large. This makes for a very successful short term stock because of the gains that it made in just about a month. This time period is longer than most investments that would fall under the title of short term trading.

For the most part, when looking for a stock to invest in short term the investor is looking for gains in a day or even a week. These situations can be predicted by following the news. If a pharmaceutical company is expecting a new product to be approved by the FDA on a certain date, then that would be considered a good time to invest in that company because of the significant gains that the company would be receiving upon approval. The other company that we invested in initially was the technology company Advanced Micro Devices. After the establishment of the Greater China Headquarters in Beijing the value of the company began to rise because of its recent expansion. The company's ability to have offices in a country that is booming economically and technologically such as China the opportunities for the company to do more business allows for instant increase in profits. When an announcement of this sort is made there is a rush to purchase stock in the company causing the stock to have an initial boost in price but eventually the price will level off once again. This makes it crucial to buy stock in the company while it's on the rise and then sell it before it plateaus allowing for the investor to make a gain that is substantial and then move their money to another investment in order to make similar gains investing in a different company.

In order to having success with short term investing in the stock market there is a lot of preparation required and a little bit of luck. The trends that stock has been following in the months leading up to the time in which you are going to buy the stock are very important. If a stock has been rising as of late it may be a good idea to invest in that company. Another good way to find a stock that is going to be making a move in the positive direction is by checking the news to see if a company is making a merger or opening a new branch. Pharmaceutical companies are also a good target for these sorts of investments because of the boom in their stock price upon the approval of a new product. All of these factors and more are good hints into whether a stock will be a successful short term investment for the individual investor or firm.

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#### 3.3 Stocks Chosen

For our short term trading we have picked two stocks that we feel have the potential to do well in a relatively short amount of time. Those stocks are Goggle and AMD, Advanced Micro Devices. We picked Goggle for a number of reasons.

Goggle is the worlds largest search engine. This means that it has more people visiting it than any other search engine. Goggle, therefore, provides the best service to its consumers, web sites. If a person or company has a website that it wants people to visit Goggle is the place for it to be. Goggle generates revenue by allowing advertisers to puts their messages in a place where they are relevant to their customers. For example a soft drink company could place an ad on all sites that come up when a person searches for beverages. This would allow the soft drink company to advertise to a certain demographic. Goggle makes this happen. Another advantage that Goggle possesses is that it does not allow pop-ups. This is appealing to many people using the internet because it makes it easier. From an investor's point of view, Goggle is a great stock because it has potential to grow indefinitely. The internet is a relatively new invention and search engines are even newer. The goal of a search engine is to organize all the information on the internet so that users can find what then need immediately. As most people know this is not the case with any search engine, but as technology increases search engines will get better. This means that all search engine companies are going to grow and continue to make more money than previous years. Since Goggle is known world wide as the best search engine it has the power to invest more money back into the technology than other companies. This is then going to allow it to grow faster than other companies and make more money than other companies. Goggle has the potential to earn money quick and that is what makes it such a great short term stock.

When deciding which stocks to invest in for a short term period we looked for companies that had a consistent growth over the months before we were going to make the purchase. The company Advance Micro Devices was suggested to us as a good corporation to investigate. The quote on the main page on the companies web site was "Founded in 1969 and based in Sunnyvale, California, AMD provides microprocessors, Flash memory devices, and silicon-based solutions for our customers in the communications and computer industries worldwide. However, our focus goes beyond integrated circuits and transistors. AMD is committed to helping our customers — and their customers — take advantage of the phenomenal capacity of silicon to add value and help differentiate their offerings. To that end, AMD products are developed with customer needs always in mind and not for the sake of innovation alone. Stated more plainly, it means that AMD exists to provide real solutions for real customer problems that exist in the real world today." These areas are all important right now because of the need for the next advance in technology. With the whole world changing over from dialup to direct service, there is going to be a need to move to a faster way of connecting the information world. Silicon has shown immense potential for being our next great way of connecting.

Upon further investigation of this corporation we discovered that the company had recently been making enormous gains in the price of stock. At the end of the third quarter on September 26<sup>th</sup> the company announced that the net income is intended to increase from the \$32 million reported in the second quarter. This information would encourage good feelings towards fourth quarter gains, as is shown in figure 3.1.

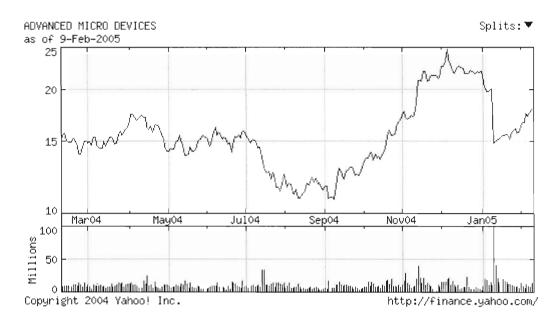


Figure 3.1 AMD 1 Year Price Action

Since the period in which we were planning on tracking this company's stock, we thought that this stock would be a great choice for our second short term investment. The companies which we have chosen to follow during the stock market simulation are excellent candidates to allow us to have success. Google is a company that has had continued success over the past decade and with its common stock having been recently made available for the first time it is very appealing to us. With AMD there were different reasons for its attractiveness. The upward trend in the company's net profits was forecast to increase significantly over the final quarter of the year. The opening of the new Greater China Headquarters also offered reason to believe that it would see significant increase in its stock value over the next few months. These are the companies in which we chose to invest and why we chose to invest in them.

#### 3.4 Analysis

The stocks that we chose to follow both had very successful results. Google had a much more drastic increase in price over the time period in which we followed it than did AMD but, AMD was also a great source of profit for us. We were given one hundred thousand dollars to invest in these stocks combined. We decided to purchase 369 shares of Google and 3590 shares of AMD in order to split the money evenly. The success we have found in these stocks can be attributed to a few different events that occurred during this time period.

The success that we achieved while investing in Google was significant. The reason for this can be mostly attributed to the fact that the initial public offering of the company occurred only a month before we began to follow the stock. This event helped the value of the stock increase consistently because of the growing popularity of the search engine and its first time availability to some of the brokerage firms and all of their clients. For a few years now Google has been one of the most popular search engines available to internet users. It is now at the least competitive with, if not ahead of, Yahoo. It has also found popularity in entertainment news and pop-culture. The term to "google" something is now a commonly used term, meaning that they searched the term of the person's name on the search engine to see what results they find. I believe that this is one of the main reasons the stock has achieved such success in the past few months. As you can see from this figure 3.2, the stock began to see rapid movement upward as soon as it was opened to the public on August 19<sup>th</sup>.

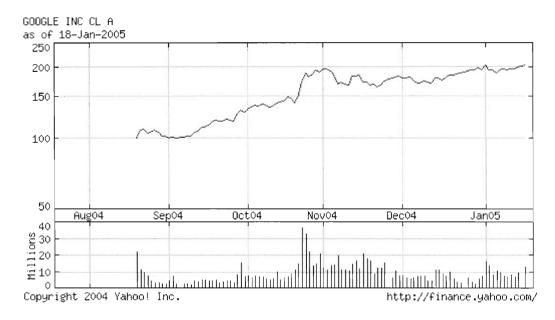


Figure 3.2 Six Month Price Action of Google

From the time of its initial offering in August to the middle of November the stock doubled in value. This sort of improvement is ideal for an investor looking for short term success. It is an investors dream to be able to double their investment in a few short months. The stock then began to level off at this time with small fluctuations up and down from week to week but for the most part remained between one hundred and seventy five dollars and two hundred dollars. At its peak the company had forty million stocks sold which is remarkable. Needless to say we were very happy with the results we got with that investment.

The other company that we took interest in following was that of Advanced Micro Devices. This company makes and distributes microprocessors for computers and other technological devices. The success we achieved with this stock was also quite significant. The reason we decided to invest in this company was due to the opening of its new Greater China headquarters based out of Beijing. This even sparked our interest because of its newfound capabilities to have cheaper distribution to the ever growing Asian market. With its location being closer to Japan and in China it allows for the company to reach a market that it was unable to before causing a boost in profits and overall value of the company. There was also evidence of a trend displaying a good possibility for an increase in value during the fourth quarter of the business year.

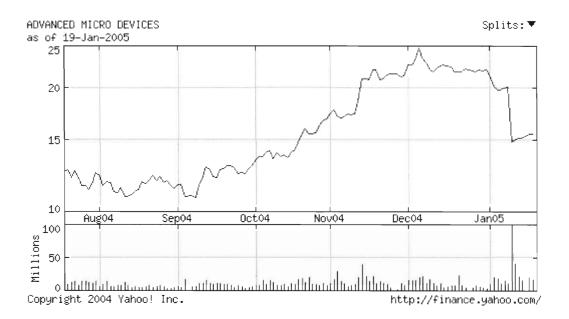


Figure 3.3 AMD 6 Month Price Action

As is evident from figure 3.3, the stock price had been leveling off at the end of the summer but by the time we began to research stocks it had begun an upward trend which was very encouraging. The time period in which we followed this stock, from the end of September to the beginning of December, was the time in which it made its best progress nearly doubling in value. This was more than we could have expected from this investment.

The success that we achieved during this time period from our short term investments can be considered a direct result of investing at a time of change and eventual prosperity for each of these companies. From our investments in AMD and Google we made a profit of \$30658 and 15026 respectively, as can be seen in the following table.

Date	adj. close AMD	Profit AMD	adj. close GOOG	Profit GOOG	Total Money
16-Dec-04	22.49	30658.6	176.47	15206.49	145865.09
15-Dec-04	22.64	31197.1	179.78	16427.88	147624.98
14-Dec-04	22.54	30838.1	178.69	16025.67	146863.77
13-Dec-04	22.11	29294.4	170.45	12985.11	142279.51
10-Dec-04	21.83	28289.2	171.65	13427.91	141717.11
9-Dec-04	22.1	29258.5	173.43	14084.73	143343.23
8-Dec-04	22.9	32130.5	169.98	12811.68	144942.18
7-Dec-04	23.49	34248.6	171.43	13346.73	147595.33
6-Dec-04	24.85	39131	176.29	15140.07	154271.07
3-Dec-04	23.22	33279.3	180.4	16656.66	149935.96
2-Dec-04	22.62	31125.3	179.4	16287.66	147412.96
1-Dec-04	22.61	31089.4	179.96	16494.3	147583.7
30-Nov-04	21.28	26314.7	181.98	17239.68	143554.38
29-Nov-04	21.23	26135.2	181.05	16896.51	143031.71
26-Nov-04	21.54	27248.1	179.39	16283.97	143532.07
24-Nov-04	21.57	27355.8	174.76	14575.5	141931.3
23-Nov-04	21.39	26709.6	167.52	11903.94	138613.54
22-Nov-04	20.96	25165.9	165.1	11010.96	136176.86
19-Nov-04	20.81	24627.4	169.4	12597.66	137225.06
18-Nov-04	21.96	28755.9	167.54	11911.32	140667.22
17-Nov-04	21.99	28863.6	172.5	13741.56	142605.16
16-Nov-04	20.88	24878.7	172.54	13756.32	138635.02
15-Nov-04	20.98	25237.7	184.87	18306.09	143543.79
12-Nov-04	21.02	25381.3	182	17247.06	142628.36
11-Nov-04	18.59	16657.6	183.02	17623.44	134281.04
10-Nov-04	17.29	11990.6	167.86	12029.4	124020
9-Nov-04	17.22	11739.3	168.7	12339.36	124078.66
8-Nov-04	17.37	12277.8	172.55	13760.01	126037.81
5-Nov-04	17.09	11272.6	169.35	12579.21	123851.81
4-Nov-04	16.98	10877.7	184.7	18243.36	129121.06
3-Nov-04	17.1	11308.5	191.67	20815.29	132123.79
2-Nov-04	17.7	13462.5	194.87	21996.09	135458.59
1-Nov-04	17.34	12170.1	196.03	22424.13	134594.23
29-Oct-04	16.82	10303.3	190.64	20435.22	130738.52
29-Oct-04 28-Oct-04	16.69	9836.6	193.3	21416.76	131253.36
27-Oct-04	16.23	8185.2	185.97	18711.99	126897.19
26-Oct-04	15.62	5995.3	181.8	17173.26	123168.56
25-Oct-04	15.5	5564.5	187.4	19239.66	123108.30
23-Oct-04	15.56	5779.9	172.43	19239.00	119495.63
22-Oct-04 21-Oct-04	15.95	7180	149.38	5210.28	112390.28
20-Oct-04		5241.4	149.38	1929.87	
19-Oct-04	15.41	2872		4678.92	107171.27
			147.94		107550.92
18-Oct-04	14.19	861.6	149.16	5129.1	105990.7
15-Oct-04	14	179.5	144.11	3265.65	103445.15
14-Oct-04	13.59	-1292.4	142	2487.06	101194.66
13-Oct-04	13.84	-394.9	140.9	2081.16	101686.26
12-Oct-04	13.7	-897.5	137.4	789.66	99892.16

### Table 3.1Table Illustrating Growing Assets

The initial public offering of common stock by Google search engine and the opening of the new Greater China Headquarters by the Advanced Micro Devices organization were the catalysts of the great results that we observed. In order to have success in short term trading it is necessary to research the stocks and also to be fortunate enough to have continued growth within the companies that the investor has chosen to invest in. The time period over which the stock has profitable growth does not need to be as long as was the case for us, however. If an investor is looking for quick results they can invest in a company for a week or even a day and have similar success.

#### **3.5 Conclusion**

When it is done properly, the practice of short term trading of stock is an excellent way to make money quickly. From our simulation we learned of some of the factors that go into whether or not a company is at the right time to invest in it. The time period over which the investment occurs can vary from and hour to a couple of months but the result will be the same if the decision to invest is well informed. Most opportunities for significant gains or losses can be discovered simply by watching the news or reading the newspaper. World events that affect the economy can be cause for alarm when it comes to investing, or in some cases it can be an opportunity to make quick money. For example, if there is a war going on, companies that have government contracts for weapons or vehicles tend to see a spike in their overall value because of the demand for such products. Mergers and acquisitions are also an important area to watch when looking for a company to invest in short-term. When two companies merge usually one of the companies will see an instant increase in its stock price. Events such as these were what we looked for when researching companies to invest in. The companies that we chose to invest in were Google and Advanced Micro Devices. These companies were both good investments for our goals of simply seeing a profit over the two month period during which we tracked the price of these stocks from day to day. We received significant profits from these investments receiving a 45% return on the one hundred thousand dollars that we invested. The period with which we watched the stocks turned out to be just long enough because immediately after we stopped tracking the AMD stock it returned to the price at which we first purchased it in October. Google however leveled off after we stopped following it, staying around within ten dollars of the price we sold it at in December.

The two companies were entering interesting periods in their history at the time of our investment. Google had its initial public offering on August 19<sup>th</sup> of this past year and as a result the price of its tock soared. This investment was a popular one because at one point during the period in which we were tracking the stock there 5.4 million shares of the company sold. The great interest in this company can be attributed to the growing popularity of the search engine among the general public as well as its newfound addition to the vocabulary of the average American. The expression "to google something" became apart of the everyday language of most people, referring to having searched that word or person on the search engine and looking for the results. From the time of the IPO to the time that we sold the stock the price of the stock nearly doubled.

Advanced Micro Devices also began an exciting period in its history with the opening of its Greater China Headquarters in Beijing, China. The opening of their new headquarters they gained influence in an Asian market where they were unable to really compete with prior to this time. The central location allows for better distribution capabilities in this area of massive economic and technological growth. Another trend that made investing in this seem like a good idea was the increase in value towards the end of the third business quarter. This trend showed a significant chance of prosperity during the last quarter of the year, which began shortly before the time period in which we tracked the stock. The value did increase to nearly twice its value at the start of the quarter proving the trend to be a correct forecast for the term.

This simulation helped me to gain insight into how to manage my money once I join the work force and begin to make real investments for myself. When investing in the stock market, the most important thing to remember is that you need to be a little lucky but mistakes can be prevented through research and the observation of trends in the progress of a stock. World news and events within the business world also aid in determining which stocks will be a wise investment. With the proper research of companies and the recognition of an event that will have a positive affect on the companies stock price. No matter how the market is doing at the time there are always companies that will prosper. Observation of companies that have direct customer relation such as the Google search engine is also a good way to find the right company to invest in. If the company has good service, therefore providing the customer with what they need, then it will inspire customers to continue using their services and will in fact have a positive affect on the overall value of the company. Learning these different aspects of daily business life, as far as the stock market is concerned, as well as learning how to properly track a stock will hopefully allow us to make smart decisions in the future when we are looking to turn a quick profit or simply manage our money when we are no longer dealing with simulation money, instead handling our own money.

# **Chapter 4: Swing Trading**

#### 4.1 Introduction

In this chapter we will utilize and explore the trading strategy known as swing trading. Starting the simulation with 100,000 dollars we will attempt to gradually increase our account by using swing trading techniques performed by successful swing traders. Our plan is to start small with less risky investments and as our simulation goes on and our experience increases we will attempt to move into more unstable investments involving more risk but a chance for larger profit. It is important to realize that most successful swing traders have been involved in the trading for many years and usually are very educated in the business sector. As beginners with little to no experience in trading we are fully prepared to take a few losses as well as gains. Our overall goal in attempting to swing trade is to learn from those losses and gains and use the information to broaden our knowledge eventually become successful swing traders.

### 4.2 Trading by This Method

The first and most important principle of swing trading is that price is everything. Meaning, while other strategies tend to rely on information and news about companies and the economy for their trading, the swing trader focuses more on technical analysis of stock prices. Technical analysis is a very involved process of using data from stock charts ranging from daily to yearly trends to predict a possible upswing in price. Although a stock may be analyzed for a yearly time period, the swing trader usually will go for a quick and sharp uptrend lasting anywhere from a few days to a few weeks and rarely will ever hold a stock for longer than that. This time period is usually predetermined due to past trends, but risky buyers can hold on to the stock with a hunch that it will break the high of past trends. On the other hand safe buyers will sell the stock either at the predetermined high or the first sign that the stock is falling. It is all a matter of technique and opinion which differs from one to another, there are no rules set in stone for swing trading but rather guidelines. Many traders have their own approach to this trading technique.

An important fundamental for swing trading is realizing that price is not random. As I stated earlier, technical analysis starts with looking at historical prices of a stock to gain a sense of a possible repetitive swing. Price, however, is not the only variable used in this process. One variable that should never be overlooked is volume, or the number of shares traded during a given period. Volume is the most commonly used flag to indicate the path of a stocks price. A theory that swing traders commonly use is that volume should follow trend. Which means, when a stock is on an uptrend, volume should rise during rallies and fall during declines. When a stock is following a downtrend volume rises on decline and falls during a rally. This theory makes volume an important factor on when to buy and sell stocks as well as to predict when a stock is going to reverse its present trend. With that in mind, we now have a basis to swing trading. Essentially it is to identify swings from historical data. Once a swing is identified, buy when volume highest during a decline and sell when volume is highest during a rally.

Now that we have identified the essence of swing trading, the next step is to learn how to actually interpret charts. The most common chart used by swing traders is the bar chart. The bar chart consists of a vertical line showing the range of the stocks prices for each day with a horizontal mark showing the day's closing price. Just looking at the bar chart you may discover a normal range for a period of time. The upper limit of the range is called the resistance level and the lower limit of the range is called the support level. If you where to draw lines representing the resistance and support levels the area in between would be called a channel. The channel is very useful for swing traders in identifying trends because usually the stock will trade within the channel. The slope of the channel indicates how the trend is going. An upward slope indicates a period of uptrend or a bullish phase and a downward slop indicates a period of downtrend or a bearish phase. A channel with no slope indicates a period of consolidation. Figure 4.1 below illustrates the bar graph with resistance and support lines in bullish and bearish trends. Notice the high volume flag we discussed earlier, highlighted in red, which happened to be a sign of trend reversal, and this would be the ideal time to buy shares of this stock.



Figure 4.1 Price action of TI showing a pattern

Now that the channel has been formed, there can be different buy and sell signals or flags created by interpreting the fluctuations within and around the channel. For instance, if a company is in a short consolidation period and there comes a point where the price rallies above the resistance level; this could be a sign that the company is entering a bullish phase. In contrast, if the price falls below the support level there is a good chance that the company is beginning to enter a bearish phase. These flags as well as volume flags are not definite, but identifying them will give you a much better chance of predicting the flow of the stock prices.

#### 4.3 Simulation Events

The first transactions we made where according to our plan to start off with less risky investments. This was because we had little experience with swing trading and still where only slightly familiar to the vast concept and the technique of technical analysis. With this in mind, we came up with a list of companies that we viewed as successful over the past decade or so. Then to narrow it down a bit, we looked at the actual price history of the companies' shares. From those histories, we then predicted which companies would be the safest to invest in. The two companies we ultimately chose to invest in where Wal-Mart (WMT) and Daimler Chrysler (DCX). To further insure that we were making a safe investment, we researched the back round and history of these companies to become more familiar with how they are run and what exactly the companies are incorporated of. Following these two transactions, our group sticks with technical analysis for trading and only uses a fundamental approach to identify companies.

# Wal-Mart

Wal-Mart (WMT) was one of the first companies that came to mind when I was thinking about measurements of constant success in the business world. Of all other retail chains in its class, Wal-Mart seems to dominate by constantly expanding and always attracting large crowds of shoppers from almost every class and culture. The popularity of this chain over the past decade is why I have classified Wal-Mart as a successful business and a solid stock to investigate.

Wal-Mart Stores, Inc has been a successful business since the late sixties. Incorporated in 1969, the company owns retail stores in different formats around the world. The different formats include Wal-Mart Stores, SAM'S CLUB, and International. Wal-Mart Stores is even further segmented to discount stores, which carry a variety of items from men's and women's apparel to sporting goods; neighborhood markets, a grocery store chain; and Supercenters which is a combination of the other two segments. This format of the business is usually responsible for about sixty percent of total company sales. SAM'S CLUB is a chain of large warehouse like stores offering goods in bulk, to those who subscribe to the SAM'S CLUB membership, at discount prices. This format is usually responsible for about fifteen percent of total company sales. The final format of Wal-Mart stores is their international segment. This format operates in six countries bringing in around twenty-five percent of total sales. The variety of goods offered in so many locations can give you a good idea of why Wal-Mart Stores, Inc has been so successful.

Wal-Mart Stores provided us with a great start to our simulation. Upon investigating the price action of this company we notice that stock prices has a very consistent swing especially so in this past year. Since May of 2003, the stock has fluctuated around fifty-five dollars and swinging from as low as fifty-two dollars to as high as sixty-one dollars as shown in figure 4.2.

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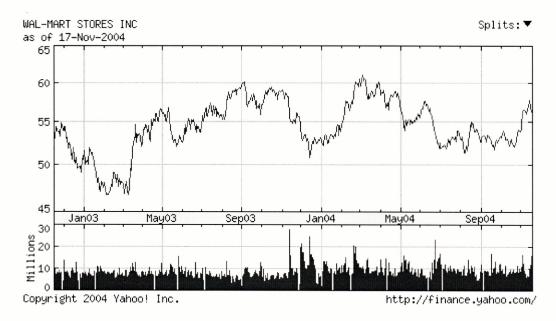


Figure 4.2 2 year price history of WMT.

Due to the consistency of the past two years, we were very confident that this would be a low risk investment. Starting the simulation in October of 2004 gave us an ideal opportunity to buy into the company right away. As you can see in figure 4.2 the stock price dropped after May of 2004 and entered a brief consolidation period around the price of fifty-three dollars. Our next step was to analyze this consolidation period to predict the perfect time to buy. The consolidation period, shown below in figure 4.3, was oscillating around fifty-three dollars, ranging from fifty-five dollars to just below fifty-two. After seeing no obvious flag of increase, but still confident on our prediction of an upcoming bullish phase, we decided on October 15, to buy 600 shares of Wal-Mart Stores Inc. at the price of 52.62 dollars a share. Our plan was to wait for the rally but still play it safe by selling at a point of minimal loss if it fell below 52.5. If the rally did come, we planned to sell at the first sign of trend reversal after the price exceeded 54 dollars a share.

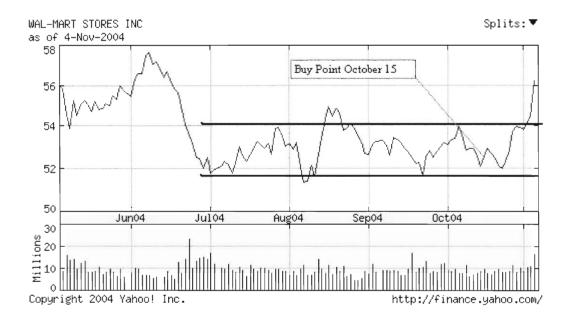


Figure 4.3 3 month price history of WMT with consolidating price channel

After about two weeks it seemed as though our investment was going just as we had predicted. As illustrated in figure 4.4 (shown below), the price started to increase at a rapid pace, leaving the consolidation period and entering a strong rally. We continued to carefully watch the pricing every day looking for a sign of trend reversal. This was due to the fact that there was no guarantee that the stock would rise to or above the peaks of the past year. Then on October 14, after a sharp rise, a flag arose. The volume of trading had risen sharply above the average trend. We interpreted this as a sign of a trend reversal. On October 15, at the opening price of 56.5 dollars per share, we decided to play it safe and sell according to what we had planned from the beginning. The sale granted us a net sum of 2,328 dollars. This was a great success to us as a first trade.

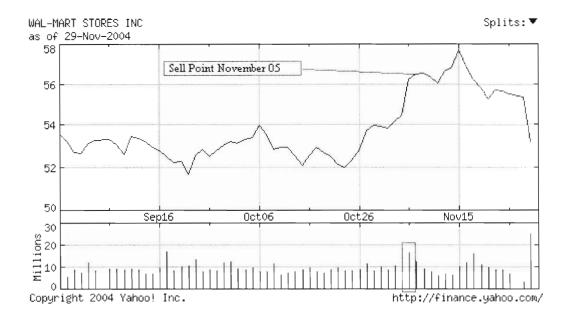


Figure 4.4 WMT price chart, showing sell point and high volume flag.

Wal-Mart Stores Inc. (WMT) Transaction						
Date Order		Shares	Price/Shares	Price		
10/15/2004	BUY	600	52.62	31572		
11/5/2004	SELL	600	56.5	33900		
			Net Gain:	2328		

Table 4.1 Transaction Summary for WMT

# **Daimler-Chrysler**

As with Wal-Mart, Daimler-Chrysler provided us with a strong start for our simulation. The company retails almost all unique automotive styles and brands ranging from minivans to luxury sedan and Mercedes-Benz to Jeep. Daimler-Benz AG and Chrysler Cooperation became one super company in 1998. The reason that we chose to initially purchase stock in Daimler-Chrysler, as well as Wal-Mart, is because both companies provide safe, secure, and fairly priced items to their customer. I currently own a Jeep, and my father recently owned a Mercedes, and to the best of my knowledge, both

products are very well manufactured and maintained. Customer service is important to the overall name a business creates for itself, and by simply viewing the market trend over the past five years, it seems as though Daimler-Chrysler has been steady and reasonable in providing a quality product to its customers. Our idea is that good customer service leads to increased funds and increased funds will eventually lead to stock prices rising.

Over the past two years, the stock prices have been as low as \$27 and as high as \$50. (Shown in figure 4.5) Although these are the first stocks our group chose on the subject of swing trading, the basic knowledge showed us that this company seemed to be a reasonable pick, based on the up and down action shown, as well as the steady increase.

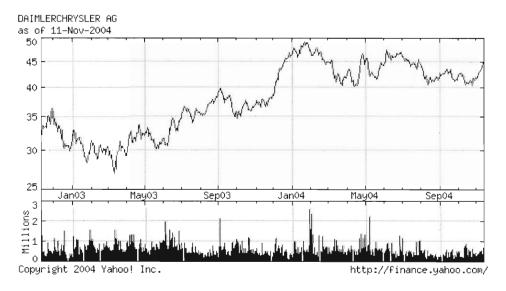
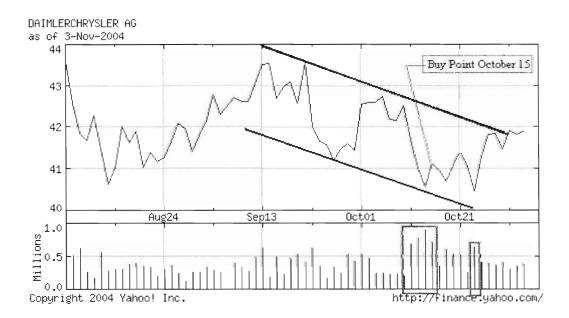


Figure 4.5 2 year price history of Daimler Chrysler

After we analyzed the long term price action of DCX, we decided to take a closer look at the recent activity to find a potential swing to buy into. As shown below in Figure 4.6, the stock was in a brief bearish phase from mid September to late October. Upon investigating price patterns of the past year, we predicted that this bearish period would not last very long. With this in mind, we closely examined volume and price on a daily basis watching for signs of trend reversal. On October 14, after a sharp decrease in price, we noticed a significant rise in volume. This seemed like the ideal time to buy into this stock, so the next day at the opening price of 40.74 dollars, we purchased 800 shares. Our plan was much the same as with Wal-Mart, our sell point was to be at any flag at or above 43 dollars. Of course with minimal experience we were prepared to take a loss if our predictions were wrong. If DCX did not leave the bearish trend, we would sell at a point of minimal loss. At the end of the trading day it seemed almost too good to be true that our two originally chosen stocks had hit a buy point on the same day. After the two investments were settled we had a sum of 12,948 dollars left in our cash account. We kept this small amount free so that we could be open to trade if a hot opportunity came up.





After a week, Daimler Chrysler had shown little activity besides the steady high volume. The price was slowly rising however. On October 21, it hit a new high of 41.46 dollars. The next day it dropped to a low of 41.7, which was higher than the low of the day before we bought into the company. This indicated that the stock was entering either a period of consolidation or a weak bullish phase. Although this is not what we had predicted, we recognized that the volume had stayed well above average during this period. We felt that the increased trading had not yet affected the price of the stock significantly. The meager activity was essentially the calming before a storm, as we put it. My partner and I anxiously waited for a strong rally.

By the tenth of November we realized our patience had paid off. The price of Daimler Chrysler's stock had quickly rallied above our minimum of 43 dollars and looked as though it was going to continue. This was very good news to my partner and me, but we also realize that on many occasions quick gains lead to quick losses. With this in mind we watched the stock prices and trading volume very closely the next few days. The next day DCX hit 45 dollars, the volume had also hit a high point. Normally this would be an automatic sell signal for us, but considering the above average volume for the whole month we decided to wait for more evidence of a trend reversal. Evidence presented itself after a weekend of waiting when the stock opened the following Monday at a low of 44.38. During that day the price fluctuated in a downward fashion. We decided to sell on Monday the 15<sup>th</sup> of November at the end of the trading day for a price of 44.32. Below is a chart showing events leading to our sale.

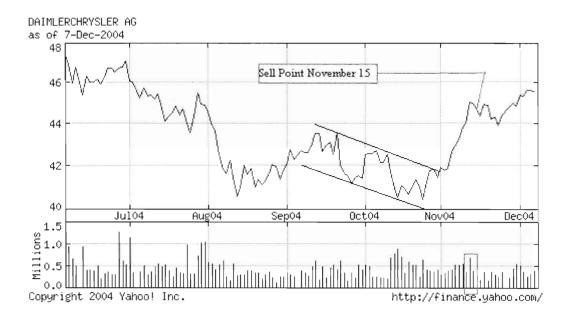


Figure 4.7 Price Chart of DCX Showing Sell Point and high volume flag

My partner and I did have a suspicion that the price would actually reach at least above 46 dollars within the next month or two. This seemed to be the tendency of past the past swings. But considering the time constraints of the simulation, we ultimately decided that we didn't want our funds to be tied up for such a small and uncertain gain. After all, with the sale of Daimler Chrysler and the past sale of Wal-Mart we accumulated a net sum of 5,192 dollars in just one month of trading. This does not seem to be such a high amount when compared the amount of money we invested, but one can make a very comfortable living with monthly gains of 5,000 dollars a month from trading stocks; and these trades where what we considered being low risk investments. Being new to trading, we felt that we got lucky with these two transactions; from this point on in the simulation our goal was to disprove this feeling.

Daimler Chrysler (DCX) Transaction							
Date Order Shares Price/Shares Price							
10/15/2004	BUY	800	40.74	32592			
11/15/2004	SELL	800	44.32	35456			
			Net Gain:	2864			

 Table 4.2
 Transaction Summary for DCX

# **Radio Shack**

Radio Shack Corporation retails customer electronic goods to consumers nationwide. With over 5,000 stores throughout the country, as well as in Puerto Rico and the US Virgin Islands, Radio Shack provides everything from batteries to personal computers. Radio Shack also manufactures a variety of products, primarily sold through its retail outlets, including telephone parts, antennas, wire and cable products and a variety of hard to find parts and accessories for consumer electronics products. The competition in the electronic department includes such companies as Best Buy, Circuit City, Wal-Mart, and Sears. Verizon and Sprint provide competition in the wireless category as well. Through all of this competition, Radio Shack still produces good financial numbers and high gains over the past 3 months, as shown in figure 4.5.

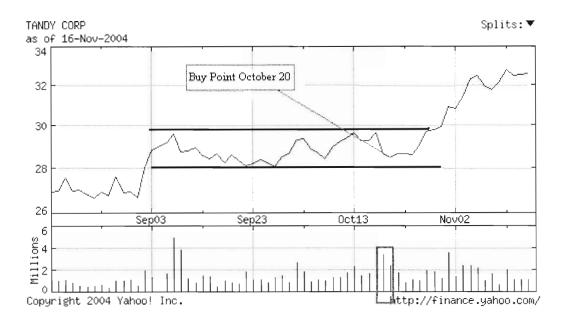


Figure 4.8 3 Month RSH Graph Showing Buy Flag and Consolidation Period.

Although the price per stock has dipped from a high point of around \$35 to a low of around \$26, we feel that because the low price is below the past low, the stock will rise again. Based on the consolidation period shown in figure 4.5, we decided that the price was evening out and was going to increase. The red square shown in both figures 4.5 and 4.6 illustrates a high volume, which when occurring at a low point, is a sure sign buy flag. The reason we purchased this stock was that we saw the volume increase around the middle of October and decided that it was a low-risk investment. The shares were purchased at the next open price.



Figure 4.9 1 Year Price History of RSH.

Soon after the purchase of this stock I realized that it might not have been the best investment for our group. The figure above shows a swing of almost ten dollars, which under normal circumstances would yield a nice gain. The problem was that our simulation was only seven weeks long and Radio Shack's price movement seemed too slow for us to make a substantial gain. After all, it took six months to drop ten dollars and it could take over six months to reach 35 dollars again. My partner and I finally decided to hold on to it in hopes that it would rise faster than it sunk.

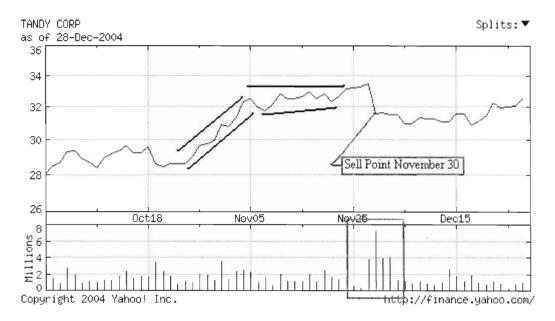


Figure 4.10 RSH Price Table Showing Events Leading to Sale

Initially the price of Radio Shack defied our earlier assumptions of its slow movement; in less than two weeks the price rose about four dollars. However, this was a short lived trend; after the fourth of November the price settled around 32 dollars and seemed like it would stay there due to the lack of trading indicated by the stability of the volume. Still, we decided to hold on to the shares in the case of a breakout. We were fully prepared to take a minor loss for the chance of a larger gain. On November 29, it seemed as though the stock was going to break out of this inactive trend. Price rose above average and volume was increasing dramatically. My partner and I waited to see what would happen next. The next day volume continued to increase but unfortunately the price dropped a few dollars. At the end of the trading day we decided to sell our shares for 31.57 dollars per share. Although we missed the ideal sell point we still gained a sum of 2,368 dollars, so all was not lost in this transaction.

<b>Radio Shack (RSH) Transaction</b>							
Date Order Shares Price/Shares Price							
10/20/2004	BUY	800	28.61	22888			
11/30/2004	SELL	800	31.57	25256			
<b>Net Gain:</b> 2368							

Table 4.3Transaction Summary for RSH.

# **Deer and Company**

Deere and Company, as with Wal-Mart and Daimler Chrysler, was one of our original choices of companies to investigate before the simulation began. My partner and I discovered this company in the top ranked stock market buys on Yahoo.com; it was ranked nine out ten for performance. After further investigation we decided that Deere and Company indeed have very large swing potential. However, our plan was to start the simulation off with low risk investments. This stock, with its large swings, seemed to risky for us to purchase without prior trading experience. With this in mind, we kept a close eye on the price patterns to become familiar with the price swings and volume reactions for a later trade. We decided to buy after our Wal-Mart shares were sold. At this point we dug deeper into the history of the company to get a general feeling of how the business was running.

Deere and Company, founded in 1837, is most frequently associated by consumers with its top of the line John Deere lawn mowers and tractors that are sold by retailers worldwide. The company started off as a one-man blacksmith shop in Grand Detour, Illinois. The blacksmith, John Deere, became famous by developing the first steel plow which was needed to cultivate the rich and heavy soil of the Midwest. This event was the start of a very successful business that eventually took over the agricultural equipment market. Today, Deere and Company serves the world a large variety of commercial and consumer equipment and components. It is composed of four main manufacturing divisions; agricultural equipment, commercial and consumer equipment, construction and forestry equipment, and power systems. The popularity and broad business range of this company gave me and my partner a strong feeling that it would be a solid investment.

The next step to our Deere and Company investment was to evaluate its long term price actions to asses the risk. A shown in the figure below, DE's prices started on a bearish trend around the end of March. Within the bearish price channel though you can see the large fluctuations shaped almost like a staircase. Initially my partner and I viewed this sign as a very risky investment, but after a closer look we discovered the good sign. On the minimum price of each swing the volume rose above average and at the peak of each swing the volume fell down to below average. This told us that the price fluctuations could be predicted very easily. We then decided that this stock was no longer much of a risk, at the least we could buy into low point and sell at the next peak which would be about a six dollar gain if the price continues to follow the downward trend. Our next step was to look closer to the monthly charts to see an ideal time to buy.



Figure 4.11 1 Year Price Action of DE

Due to the large swings of this stock the six month price chart didn't offer much as far as the prices go that we already didn't know from the one year chart. However, it did give us a closer look at the volume, ensuring us that our previous assumptions were correct. During the period of the last week of October and the first week of November my partner and I missed an important buy flag. Paying all of our attention to the downward price channel and looking for a small gain we overlooked a sign of total trend reversal. Instead of dropping like a downward staircase as we had predicted, during the last week of October the low point of the swing settled higher than the last minimum point; it failed to reach the bottom line of our price channel. In addition to this sign, the volume was higher than it had been all year. This is an almost positive sign of trend reversal and the makings of a breakout period for this stock. Even as the price continued to rise the volume was maintained well above average. My partner and I decided that even though we had missed this flag we could still generate a profit by riding this reversal as long as possible. On the 8th of November we purchased 700 shares of Deere and Company for a price of 65.08 dollars per share. The chart below illustrates the reversal signs described above as well as point at which our shares were purchased.

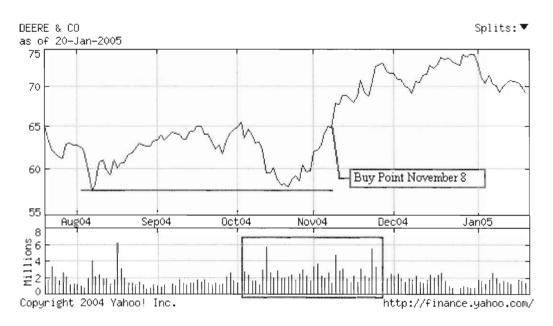


Figure 4.12 6 Month Price Action of DE Showing Trend Reversal Signs

Under the circumstances of our purchase, my partner and I had to keep a close eye on this stock in order to achieve a worthy gain. The sharp fluctuations in this stock's prices led us to believe that the price could go down faster than it went up. Around the 22<sup>nd</sup> of November it seemed as though the sharp trend had ended and the stock was either in a consolidation period or at a maximum price. We referred to the two year price chart to determine where the stock had peaked after a long term swing in the past. As shown in the chart below the highest that DE has ever achieved was 74.85 dollars per share. With this evidence my partner and I decided to get ready to sell. However we were aware that the stock could break its past high, so we kept our eyes open for signals of either direction.

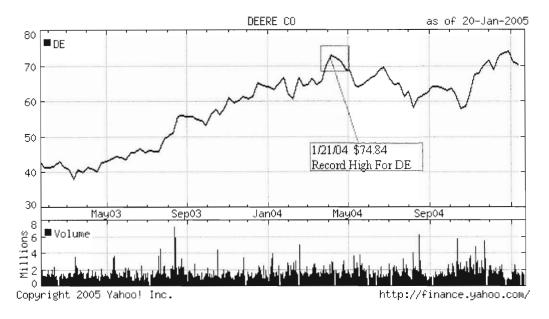


Figure 4.13 2 Year Price Chart of DE Showing Previous High

After a few days, in the middle of a sharp rise, the volume jump considerably. We watched as the price peaked at 73.11 dollars. The next day it dropped about a dollar. We interpreted this as the stock entering a new phase that was no longer as predictable as it the previous year or so. We decided to sell on the 29<sup>th</sup> of November for the price of 72.11 dollars per share.

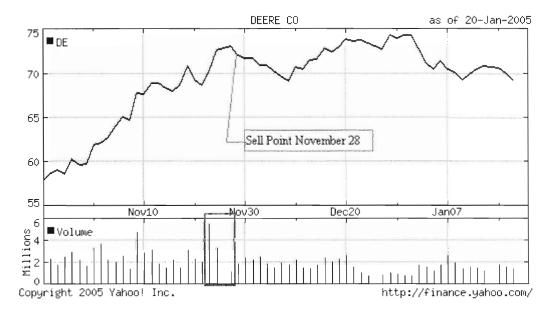


Figure 4.14 Six Month Price Chart of DE Showing Sell Point

Deere And Company (DE) Transaction									
Date	Order	Order Shares Price/Shares Price							
11/8/2004	BUY	700	65.08	45556					
11/29/2004	SELL	700	50477						
<b>Net Gain:</b> 4921									

Table 4.4Transaction summary for DE

### Nissan Motor Company

As our simulation was winding down, my partner and I wanted to try out a few low price stocks. We felt that with a cheaper stock, we could afford to buy more shares, thus increasing our returns off of an average price jump. In addition, we had about three weeks left in the simulation, so if the stock price did not move fast enough we could still sell at the deadline and make a good sum of money considering the amount of shares we held. Nissan Motor Company seemed to be a good prospect for this method.

Nissan, or Datsun, as it was formerly known in America, is a manufacturer of passenger and commercial vehicles that are distributed world wide. Successful models like the Pathfinder, the Altima, and the Maxima have served as great competition over the years for other auto manufacturers such as Daimler Chrysler and Ford. The range of this company and quality of its products give an overall feeling of comfort to the consumer. Over all the Nissan Motor Company would seem to be an ideal company to focus attention on.

As usual, our analysis starts with an investigation of the long term price action of the particular stock. The figure below illustrates the one year price action of Nissan Motor Company. From this figure you can see that this stock is very low risk, with an average price of about 21.50 and the highest deviation being around two dollars. Furthermore, from the period of mid March to early September the volatility of the stock decreased into a very tight fluctuation between around 21 and 22 dollars with very little trading activity. The reason we ventured in such a low risk investment was because we where trying something new. We planned to buy about double the amount of shares that we have in our previous investments. This plan could either double our average profit or create a larger loss. For this transaction we were not concerned with profit, the idea was to experiment with a new angle that could potentially maximize our gains in the future.



Figure 4.15 1 Year Price Chart of Nissan Showing Decrease in Volatility

With a price range of only a dollar, my partner and I had to find the absolute lowest point to buy. We assumed that the stock would either maintain this period of consolidation till the end of our simulation or experience a quick breakout. With this in mind we would have to prepare for either case. As shown in the figure below, during the week of November 16, the price dropped below our resistance level of the price channel. Seeing no apparent sign of trend reversal, we predicted that the price would hit a low and eventually rebound to above our support level. We watched as prices continued to drop until hitting a low of 20.69 dollars per share with an addition of rising volume. This was our ideal time to buy. On the 24<sup>th</sup> of November, we purchased 1200 shares of Nissan for the price of 20.88 dollars per share. On this day the volume continued to rise well above average.

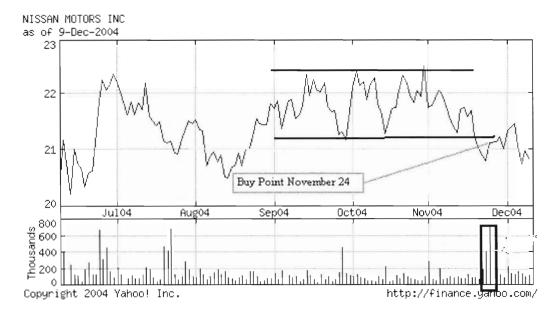


Figure 4.16 6 Month Price Chart of Nissan with Buy Flag

Soon after our purchase, my partner and I realized that the price may never rise back to its previous level before the end of our simulation. It continued to respond to the high volume for a little over a week and hit a high of 21.6 dollars per share before plummeting lower than our purchase price. We decided to hold on to the shares until the end of the simulation unless it continued to drop. This decision paid off. After that low the price slowly increased until it was just above where we purchased. On the 17<sup>th</sup> of December, upon the end of our simulation, we sold our shares of Nissan for 21.05 dollars per share. Although we made little profit, we avoided a loss by not selling on first instinct. More time to hold this stock would likely have given a larger gain considering that the price was still rising after the sale. I'd say that overall, this trade was a success for building the foundation we were after. This transaction has broadened our swing trading method to include variability in prices and shares in order to maximize future gain and minimize risk.

Nissan Motor Co. (NSANY) Transaction						
Date Order Shares Price/Shares Price						
11/24/2004	BUY	1200	20.88	25056		
12/17/2004	SELL	1200	21.05	25260		
			Net Gain:	204		

Table 4.5Transaction Summary for Nissan.

## **First Horizon Pharmaceutical Corporation**

Nearing the end of our simulation, we chose to buy one more stock and invest the remainder of our money into this particular stock. In buying our largest amount of stock, 4500 shares, and investing over \$85,000, our group felt very confident in the purchase. First Horizon Pharmaceutical Corporation (FHRX) markets and sells brand name prescription products. With 14 different products, FHRX seemed to be a good fit for this portion of the simulation. Its key products are Sular, Nitrolingual, the Prenate line, the Tanafed line, the Robinul line and Ponstel. Most of these products treat recurring or chronic conditions or disorders, which results in repeated use over an extended period of time. They focus on two therapeutic categories, which are cardiology and women's health/pediatric. First Horizon markets its products to high-prescribing primary care physicians, cardiologists, obstetricians, gynecologists and pediatricians.

With such a short period of time to finish our simulation, our group wanted a stock that was in essence a sure shot. The one main reason that we believe this stock was a good stock to buy is based on the volume shown below. The red boxes surrounding the two volume lines are the buy and sell points. As you can see, at the buy point, the volume is at its highest in the past three months. This is a good sign because the price is at a low, and when the volume increases to that degree, a buyer can expect some action. The small red box indicates the sell point, which was mandatory because this shows the last day of our simulation.

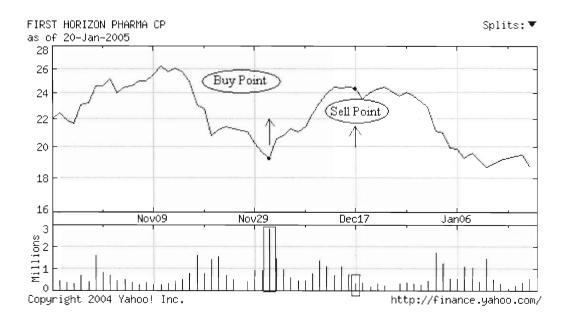


Figure 4.17 Three Month Price Chart of FHRX Indicating Transaction Details

With such a short period to work with this stock, we did not expect to make as much money as we made. In only 16 days, FHRX turned out to be our most profitable stock. Almost \$20,000 was made in that period of time. Granted we invested much more money than in previous purchases, the turnaround was enormous. In our opinion, we

were somewhat lucky by seeing the high volume increase at the right time and taking a chance.

First Horizon Pharm. (FHRX) Transaction						
Date Order Shares Price/Shares Price						
12/1/2004	BUY	4500	19.23	86535		
12/17/2004	SELL	4500	23.48	105660		
<b>Net Gain:</b> 19125						

Table 4.6Transaction summary for FHRX

### 4.4 Analysis

Upon analysis of our trades, my partner and I have deemed our simulation an overall success. While we may have missed opportunities for peak sell points some of our stocks, we did financially well over all. The purpose of this chapter is to explore what may have went wrong with each trade and how we could have been more successful. This is to gain a foundation for future trading and to ensure that we received the most out of our experience in a simulation trading period. Table 4.7 is a timeline tabulating our transactions throughout the trading simulation.

Swing Trading Investment Timeline								
Date (2004)	Order	Symbol	Price	Shares	Cost	Gain /Loss	Cash Position	Total Assets
10/15	BUY	WMT	52.62	600	31,572	0	68,428	100,000
10/15	BUY	DCX	40.74	800	32,592	0	35,836	100,000
10/20	BUY	RSH	28.61	800	22,888	0	12,948	100,000
11/5	SELL	WMT	56.5	600	33,900	2,328	46,848	102,328
11/8/	BUY	DE	65.08	700	45,556	0	1,292	102,328
11/15	SELL	DCX	44.32	800	35,456	2,864	36,748	105,192
11/24	BUY	NSANY	20.88	1200	25,056	0	11,692	105,192
11/29	SELL	DE	72.11	700	50,477	4,921	62,169	110,113
11/30	SELL	RSH	31.57	800	25,256	2,368	87,425	112,481
12/1	BUY	FHRX	19.23	4500	86,535	0	890	112,481
12/17	SELL	NSANY	21.05	1200	25,260	204	26,150	112,685
12/17	SELL	FHRX	23.48	4500	105,660	19,125	131,810	131,810
Simulations Net Gain 31,810								

Table 4.7Timeline of our Simulations Investments

One conclusion that my partner and I have come to is that our main drawback in trading is our timing. I believe this is the factor that separates experienced traders with beginners like us. Perfect timed buys and sales can make a large difference in profit generated.

For buying, my partner and I recognized a flag that could potentially lead to a trend reversal or a quick rally. After this flag was recognized we waited to see if the price would actually move as we predicted. When the price looked like it was following a pattern that we had in mind we bought into it. By this time the stock price had already started to rise and the difference from the lowest price to our purchase price was lost. This was a very minor loss in our simulation due to the relatively slow activity of the companies we chose.

Our method of selling was much the same as our method of buying. The only difference was the loss generated from early or late sales was much more significant. This was mostly due to unexpected sharp drops or selling to secure a gain before the rally was over. Most of our sell points were at a predetermined price based on past performance. Using this method did lower our risk but limited our ability to profit when a stock defied its expectations.

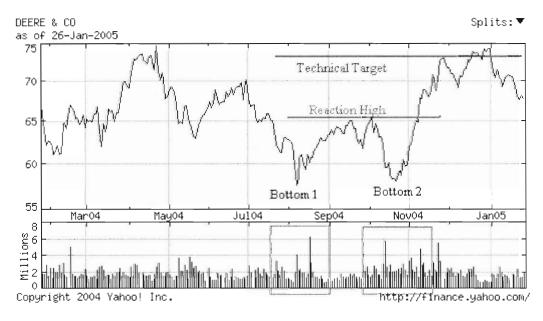
I imagine that an experienced trader would have methods to buy and sell closer to the ideal prices. One method that my partner and I did not explore was the study of daily price action

charts. We felt that we were far to inexperienced to correctly interpret these charts besides the overall gain or loss by the end of the day; also to purchase a stock in the perfect time of a trading day would involve monitoring the price action at the very least every hour. We did not have the means or time to investigate this closely. Another method that could have been explored was the method of distinct chart patterns. These are patterns of price and volume that are named after the shape of the price action. Some of these targets are the "cup with handle", the "double bottom", and the "head and shoulders". Trading with these targets becomes very involved and mostly require years of experience to identify in enough time to be useful.

# **Buys Missed**

#### **Deere And Company**

Analyzing this trade after the simulation became a great learning experience for the chart patterns I discussed earlier. My partner and I decided it was a missed buy because we purchased at a price almost seven dollars above the optimal purchase price at the lowest point of the swing. After more research, we realized that the chart pattern followed the double bottom as shown below.





The chart above shows details of a double bottom. Notice the high volumes at each bottom; this is a critical sign of the double bottom. The reaction high is simply the price that the stock rebounded to after the first bottom. The technical target line is derived by subtracting the low of bottom 1 (57.6) form the reaction high (65.30), than adding this value (7.7) to the reaction high (65.30). From this we created the technical target line of 73 dollars. This is price that the stock is expected to rally to. The double bottom is only valid until the price rises through the reaction high after bottom number two. Therefore the ideal time to buy this stock would be just above 65.30 dollars per share and the expected sell point would around the technical target of 73 dollars. During the simulation we bought in at 65.08 and sold at 72.11 as shown below. It is important to realize that our transaction times were not planned in accordance with the double bottom. The fact that we bought and sold at these times was just coincidence. According to our understanding at the time the ideal price to buy this stock would be at bottom number 2. Therefore we deemed it a missed buy.



Figure 4.19 Price Chart of DE Indicating Transaction Period

Sales Missed

### **Daimler Chrysler**

Daimler Chrysler turned out to be our most significant premature sale. My partner and I sold in fear of a downward trend at 44.32. After analyzing this stock we realized that it also was a double bottom like Deere and Company. Shown below, is a chart displaying the details of this pattern.

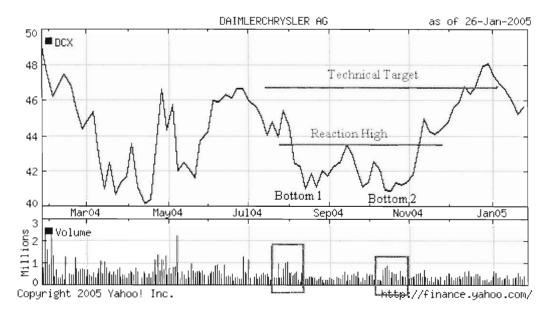


Figure 4.20 DCX Price Chart Illustrating Double Bottom.

For Daimler Chrysler's double bottom we calculated a Technical Target of 46.5 dollars. The reaction high was at 43.56 dollars and bottom number one was 40.62 dollars. Shown below is our actual transaction detail. Had we the knowledge of this price pattern during the simulation we would have held on to the stock until it reached at least 46.5 dollars. This knowledge would have almost doubled the profit we made; but as

inexperienced traders we suffered from buyers remorse and sold on the first sign that things were not going our way.

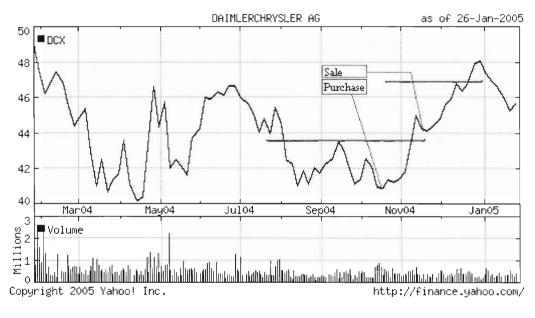


Figure 4.21 DCX Price Chart Showing Transaction Details.

#### **Radio Shack**

Our Radio Shack transaction turned out to be a good example of what can go wrong if you do not watch your stock prices often enough. As shown below, my partner and I missed out on a sale costing us about 800 dollars of our potential profit. If we had kept a closer eye on this stock we would have recognize that volume started to rise on 29<sup>th</sup> of November. This observation would have been our flag to sell our shares, for the stock was most likely going to fall as it did.



Figure 4.22 RSH Price Chart Showing Transaction Details

# **Overall Analysis**

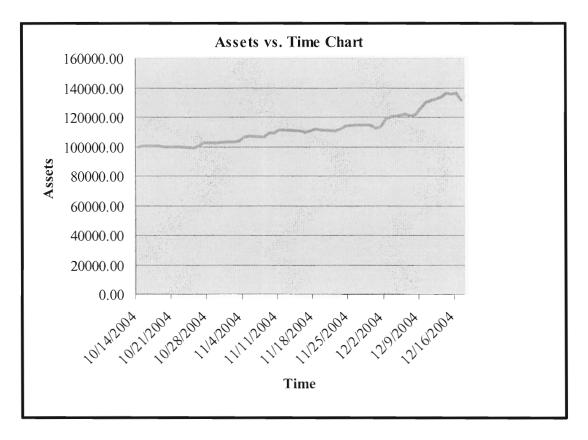


Figure 4.23 Chart of Simulation Assets vs. Time

As figure 4.18 indicates, our simulation assets grew constantly throughout the seven weeks. There are three stages of growth in our assets indicating our trading experience. Initially, in the first month of trading, our assets were stable around our original sum of 100000 dollars. This was due to the fact that we had not had any investments previously that were growing and the fact that the investments that we did make moved very slow. Eventually we caught on and the month of November we watched our assets grow twenty percent. The final and most significant stage of our simulation occurred during the month of December. As shown in figure 4.18, the slope of the assets vs. time graph increased a decent amount. This was due to our new strategy of aiming for a mid priced stock and buying more shares. This seemed to be the most significant change we made.

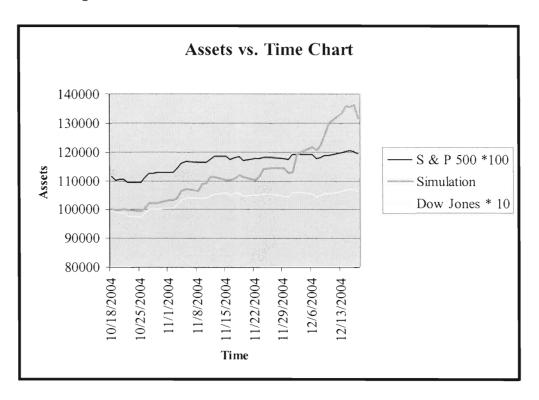


Figure 4.24 Chart of Simulation Assets vs. Time with S&P and Dow Jones

Figure 4.19 is an "assets vs. time" graph of our simulation assets compared to the S&P 500 and the Dow Jones industrial average. For comparative reasons we rescaled each of these index's as shown in the legend. The graph indicates a strong correlation between our assets and each of the indexes. The highest being a positive 84% correlation with the S&P 500 index. On a bullish market as the chart indicates, it is a good thing for assets to have a high positive correlation with the average movement of the stock market. Ideally though, you would want to move as our assets did in December. This would prove that you took full advantage of a bullish market and increased your funds dramatically.

#### 4.5 Conclusion

My partner and I began this simulation without the slightest idea of how to trade stocks, not to mention trading by the method of swing trading. What we have learned throughout this project goes beyond anything related to schoolwork. The stock market is a valuable tool that many use to not only make a "quick buck", but also to secure their lifestyles and futures. I find myself sometimes noticing different price patterns without even thinking about it. All in all, I would have to say that our simulation was a success in many ways, most notably, the important information gathered, and the amount of money that we earned.

Although we did succeed in most of our purchases and sales, there were some mistakes that were made. We were new to the swing trading process and because of this there were buy points and sell points that were missed. Nissan is one example of the missed sell point. The actual start date of the simulation also affected our purchases in a large manner. There were many stocks that dipped during the summer months and then increases drastically in the fall. Had our simulation started in the spring, these would have been ideal stocks to buy. That is one example of the limitations we encountered during our simulation weeks.

# **Chapter 5: Positions Trading**

### 5.1 Description of Position Trading

A well-known and much used method of trading is position trading. Position trading like swing trading is a short-term method of trading, but unlike swing trading, position trading you as a trader may hold the stock for a longer period of time. Position traders may hold stocks for periods ranging between days, to weeks, to even months. The range of trading greatly depends on the success the stockholder has with its given stock. The stockholders whole objective is to make a great sum of money in a short period of time. The only way to do so is to research companies they feel may have a big jump or may be successful in the upcoming days. They also must look at what companies may of had a huge increase in the past.

Stocks that are used in position trading are usually the stocks with the greatest success. For example, Last year I tracked a stock by the name of Boeing. Boeing is an aerospace stock with very little movement in the stock market. The most in a given day Boeing may move would be anywhere between .10 to .20 cents. Boeing increased very slowly and very steadily. A position trader would view Boeing as a bust because of the little success it has in a given day. A stock with greater movement that may sway the Dow Jones Industrial Average would be a superior buy for a position trader. If a stock is very neutral and seems to stay similar it may not be a smart investment if you chose the method of position trading. Position traders usually go after the big name stocks. The reason the big name stocks are a good investment is because they have opportunities to get big jumps. With big jumps obviously may come big loss as well, but the chance to lose a lot of money is at hand everywhere in the stock market. The greatest benefit of

using the position trading is that you can sell anytime if you feel you may be losing more than you may be gaining.

Success in position trading also involves the amount of money people invested into a given company. If a person only buys one share of stock they usually are not very successful when it comes to position trading or any trading for that matter. Success is built on masses of money not penny amounts. With this short-term trading method planning to invest large sums of money is the way to go.

### 5.2 Stocks Chosen

For this project we decided to choose two technology stocks that we thought would definitely go up through time. Since the world of technology is changing over a short amount of time, tech stocks are the best one to invest in for position trading. The two stocks we chose for the project are Verizon and Intel. There are many people in the world who are aware of these two companies. Verizon excels in the cell phone industry, trying to connect people worldwide, where as Intel focuses on computers and more specifically micro-processors. My partner and I both felt that these were two companies that are in the top of their class with respect to what products they concentrate on. So for the next few months we will track and see if either stock has made any significant gain.

Are you tired of the question, can you hear me now? I know I've heard it on the radio and television at least 1,000 times. Verizon puts a great deal of time and money into their advertising. People everywhere have heard this question over and over again. However, it's Verizon's job to make sure that their service comes in clear and at almost anywhere in the US. It's important that their customers know that they are doing

whatever it takes to make sure that no matter where you are you will be able to communicate effectively with the person on the other end of the line. Not only that but they also produce different types of cell phones to suit whatever the customers need is. Some are more pricy then others and have more features but for the most part their phones are affordable to any one in the US. We chose Verizon because both of us are customers and we have a feeling that for position trading this will be a good stock to follow over the next couple of months. They're always trying to make their products and service better, and more and more people are jumping on the bandwagon to sign up for their services.

The next stock we chose is Intel. Intel is responsible for the Pentium chips. So whatever computer you have, Intel is responsible for the micro-processor inside that allows your computer to run at such a fast pace. This company is constantly working on innovating new ideas and coming up with more ways to enhance the computer and make it so people can understand the importance of their company. We believe this stock will have huge gains over time because of the advancement of technology and the drive of the company to be the best and put out the best product they possibly can. It should be a good stock to invest in for position trading because it should have significant gains over time as the technological world advances every day.

### **History of Intel:**

Intel was founded on July 18, 1968 with one main goal in mind: to make semiconductor memory more practical. Intel's first microprocessor, the 4004 microcomputer, was released at the end of 1971. The chip was smaller then a thumbnail, contained 2300 transistors, and was capable of executing 60,000 operations in one second. From there Intel began creating faster and better microprocessors. Soon after the 40004 Intel released the 8008 microcomputer and was capable of executing twice as many operations per second then the 4004. Intel's commitment to the microprocessor led to IBM's choice of Intel's 8088 chip for the CPU of the its first PC. Intel was the leader of microprocessors in the 80's. The most prominent of Intel's invention and most successful was the introduction of the Pentium chip in the 1993. The chip contained 3.1 million transistors as opposed to the 2300 that the 4004 chip they made. It also had a capability of 90 million instructions per second. After the Pentium was released Intel upgraded and improved the Pentium chip. They came out with the Pentium 2,3,4 in the a few years after. Nowadays Intel is one of the Interbrand's top ten brands. They have done so much to improve the memories in people's PC. After the Pentiums they came out with the Celeron, P2, P3, and P4. Intel processors now reach speeds upwards of 2200 MHZ or 2.2 GHZ. This tells me that Intel was good at what they did. Enhancing and upgrading their chips so the normal PC owner would be able to browse through his computer at a fast rate.

Intel also focused their attention to its new multimedia technology coming out with the MMX. This tells me that they were not only focusing on producing the best micro processors to this date but also they want to improve on multimedia allowing for people to view images at a fast and clear rate. Nowadays Intel has shied away from producing microprocessors for memory. They have a new direction now. They not only focus on being the world's largest chipmaker but they are also a leading manufacturer of computer, networking, and communications products. Intel has fierce competition these days with microprocessors. I feel that with the way they produced and innovated their microprocessors they have potential be the leading corporation for all network communication products. You can trust that Intel will provide a great and reliable product. They also have a website that serves geographies around the globe localized content including product information, solutions and strategies, programs, and support. With that said my partner and I feel that if a new product is introduced this stock could fluctuate greatly helping our investment grow in a short period of time.

Intel stock report on the website started in 1998. In 1998 Intel increased its revenue 5% more than it was in 1997 to \$26.3 billion. The net income in 1998 was \$6.1 billion in 1998 compared to \$6.9 billion in 1997. It was stated on the website that from 1997 to 1998 the stock for Intel has increased. In 1999 Intel stocks went up 12% from where it original was the prior years. It increased 5% from 1997 to 1998. In 2000 they had another year of revenue growth. This was the 14<sup>th</sup> consecutive time in Intel history the revenue has grown. Net revenue during this year rose 44% with related costs. Without the related cost the revenue would have rose to 49% which would bring to \$12.1 billion. They also had had sales of \$33.7 billion. 2001 was a tough year for the technology business. Intel first started to have its downs in the stock market during this year. Revenues in 2001 went down 21% from what it original was to \$26.5 billion from 2000. Acquisition related cost was 2.5 billion with a net income of 1.3 billion which went down 88% from \$10.5 billion in 2000. Net income went down 70% from its price in 2000. In 2002 the company seemed to gain nothing and lose nothing. The company this year experienced its first even slate in 2002. There were no improvements in the technology department of Intel which resulted in the even slate. Net income was 3.1 billion which went up 141% from 2001. In 2003 they experienced much improvement in revenue and profit. Revenue went up 13% from 2002. Income rose 72%.

### History of Verizon:

As the leader in the nation in providing many people with wireless connections Verizon is easily the most successful Phone Company. Since it's the nations top wireless connection, Verizon has the largest nationwide voice and data network compared to any other company. Verizon also has a total of 40.4 customers all across the world. It has a total of 46,000 employees that work hard to make sure the customer gets what they want. It is known for being the first national high-speed data network and the first downloadable applications over the air onto phones.

All this information is not needed without knowing exactly how the customer feels about Verizon. If Verizon is not running properly and people are not buying a Verizon plan then the stock of Verizon would drop considerably. With this said Verizon's motto is to deliver the customer exactly what they want in the fashion that they want it. They state that they offer the best quality products and service at a reasonable price. As a Verizon customer I know the quality and the capability of their plan. As a member of the Verizon customer network I have never had a problem with a phone or a plan. The reason for this is because of the Worry Free Guarantee. The worry Free Guarantee is a pledge to the customers assuring them the best quality. The pledge first guarantees to the customer that they will enjoy the most reliable nationwide network compared to any other company. Another thing Verizon pledges to its customers is that if they are not satisfied with the plan they can switch to any other plan at anytime. This means if they feel the quality of the phone and or the plan is not the way they like it they can switch at anytime without a fee. Next Verizon makes it clear that satisfaction is guaranteed with the purchase of any of their products. The last thing and probably one of the most important things is the fact that Verizon lets its customers upgrade their phones

at the end of every 2 years. This means that once a customer has exceeded the 2-year mark on their phone they can receive a new phone at face value.

With all this it is clear to see that Verizon companies are very prosperous. Even though many phones seem to always experience trouble Verizon wirelesses plans and phones are the top notches in wireless cell phones. I am sure that since all of these are true Verizon wireless will remain one of the best stocks out there. Position trader's views Verizon as a sure win because of the vast technology. Since Verizon keeps developing new phones and new plans and their technology seems to never feel their stock is a sure bet that it won't feel. The only thing traders must do is be patient and wait for the next full scale of technology to be developed which could result in a huge gain or possibly a huge drop.

So far our attempt to make money off the Verizon and Intel stocks has been unsatisfactory. For Intel we made a little bit of money. When we started recording the closings on Oct. 25<sup>th</sup> it had a closing of 21.31. The closing for Nov. 18<sup>th</sup> was 24.8 giving us a positive difference of 3.5. It is good that this stock is making profit for us, however so far these aren't the results we've been looking for in a stock like Intel. If you look at the Table to see Intel's progress this year you can see that at some points during the year the stock sky rocketed. As position traders we're waiting for that right time to come where the stock booms for a little bit so we can sell and invest in new stock. If Intel keeps making money slowly then we'll hold on to it for as long as we can hope that at one point during this month the stock rises significantly.

Verizon has also been a disappointment to us. We have gained 2.6 points all together since we started keeping track of the stock. Again though this was a company in which we felt that there was going to be a huge boom for the stock since they are taking

over wireless communications and greatly improving their brand equity every day. We see this company as a consistent, stable company that should continue having success. We're ready for this stock to jump up significantly in price so that we can take advantage of selling it at the right time. If you look at table 2 you can see where the stock opened and closed at each day. It is doing better than Intel at this point but we have not gained that much profit on it thus far. Our goal for these two stocks is to have them grow and move up in price so that we can sell them at the right time. If one or both stocks fail to do this then we have no choice but to cut our losses and move on. The way for these tech stocks to move up is for the company to come out with new and innovative ideas that will change their respected fields. By investing in these two stocks we were hoping that we would be able to accomplish this and make money within a month. Although things haven't gone our way we are still hopeful that these two companies will come out with something new that will help these stocks significantly.

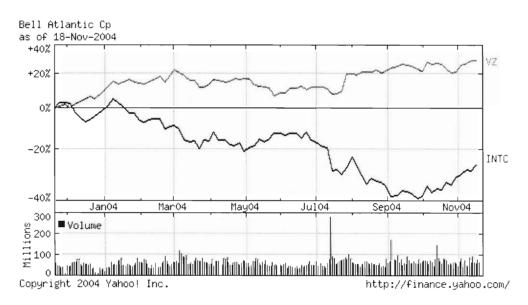


Figure 5.1 2004 to current day price action for INTC and VZ

## 5.3 Trading Events and Analysis

## Week 1 Results:

Week 1	Shares	Amount	
BUY			
Intel		2426	49999.86
Verizon		1223	49959.55
Total \$ per Share			99959.41

Table 5.1Week 1 buy in table

Above is a chart describing our transactions during week 1. The shares column is the amount of shares that we bought in for during the given week. The amount is the amount of money we put into each stock making it even. We were going to put in \$50,000 into each stock but that would make the shares uneven and that is not possible.

Date	Open	High	Low	Close
October	\$40.92	\$41.00	\$40.64	\$40.85
11th				
October	\$40.70	\$41.36	\$40.52	\$41.34
12th				
October	\$41.50	\$41.90	\$40.93	\$41.07
13th				
October	\$41.09	\$41.13	\$40.42	\$40.77
14th				
October	\$40.80	\$41.24	\$40.73	\$40.87
15th				

Table 5.2	Week	one	prices	for	verizon
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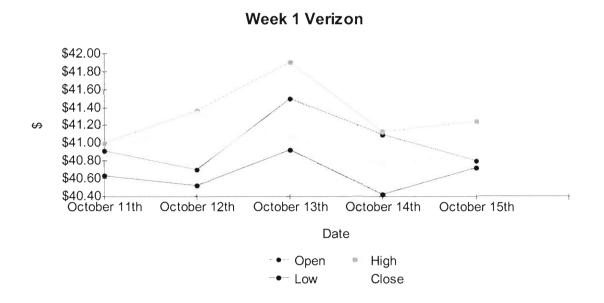


Figure 5.2 Verizon's price action during week 1 of trading

Week 1 was a very successful week for my partner and I. In the stock of Verizon we faired pretty well. In the chart above we have listed the high price the low price the opening price for the given day and the closing price. Above is a chart of the closing prices of Verizon during week 1 of our transactions. As you can see in the beginning of our transaction we faired very well. The prices of the stock went up and we did not seem to experience any loss. Loss was not experienced until the third day of our transactions. The loss that we experienced was not bad so we decided to keep the stock during this time. If the stock continues to drop then my partner and I will have to sell. As a position trader we are looking for huge jumps. We have no experienced a huge jump as you can see from the graph. We do not expect a huge jump as of now, but in the future we are hoping for greater gains. If Verizon's stock continues to drop under a closing price of forty dollars we may have to stop with Verizon and sell. The reason we must do this is because as we said before we are looking for huge jumps in a short period of time. If we keep moving down steadily then we have chosen the wrong stock and must sell.

Another thing that seems very bad about Verizon is the fact that the stock keeps dropping from its opening price each day. On October 11<sup>th</sup>, 13<sup>th</sup>, 14<sup>th</sup>, and 15<sup>th</sup> we experienced a closing price that was lower than the opening price. On October 12<sup>th</sup> we experienced a gain from the opening price which was the only day we actually felt a sense of gain. Another thing that was very noticeable from the chart was the fact that the low prices of the day were close to the closing prices. This shows that Verizon during a regular day basis drops a low price and does not have the ability to gain enough back or recover from the loss. If this persist then we know that Verizon is not a position trader's type of stock. We hope to experience a greater gain next week. If we do not experience a successful week next week we know that this stock is a bust. If the stock continues to move a steady pace next week then we know this is not the type of stock we must use for the method of position trading.

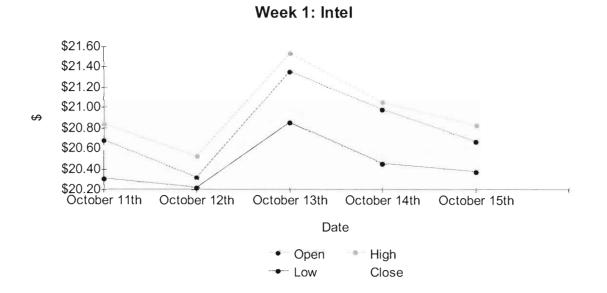


Figure 5.3 Intel's Price action during week one of trading

Date	Open	High	Low	Close
October	\$20.68	\$20.84	\$20.31	\$20.61
11th				
October	\$20.32	\$20.52	\$20.22	\$20.28
12th				
October	\$21.36	\$21.53	\$20.86	\$20.99
13th				
October	\$20.98	\$21.05	\$20.45	\$20.51
14th				
October	\$20.67	\$20.83	\$20.38	\$20.61
15th				

Table 5.3Intel's week one prices

Intel as of week one showed the same type of potential as Verizon did. Intel during day opened with a price of \$20.68 and ended with a price of \$20.61. This was not a huge loss so we did not experience a lot of damage during day 1 to day 2. From day 2 to day 3 we experienced a little gain. The gain that we experienced helped our attitude towards Intel. We realize that it is very early to see if the stock is a good one or a bust, but we still are in a type of trading style were you must be very impatient. From day 3 to day 4 we again experience a loss, but from day 4 to day 5 we started to go back up again. The graph shows how Intel faired more clearly. As you can see we started going down hill then we had a pretty big jump then went down again and ended with a positive jump. This was very important to us that we began to rise at the end of week one. We hope to continue to rise when week 2 comes around, but if we continue to drop the same way Verizon is then we may have to sell.

We are hoping that next week we continue where we ended. We hope to continue to make our way up and gain great success in our stock market for the first time in this portfolio. Even though it is still early we hope to gain success in the upcoming weeks in Intel. Intel, we feel, is the cream of the crop of the two stocks we chose so if it gains then we gain.

### Week 2 & 3 of Transactions:

On week two of our transactions, quite the same things happened as the first week. The stock of Verizon seemed to be very unsuccessful. During week one the price that we originally started on was at \$41.85, and the stock price continued to drop as the week progressed. During week two, the same applied. On Monday the price plummeted from \$41.83 (Friday's closing price) to \$40.31. Following Monday the price continued to drop steadily. By the end of the week we noticed plenty of loss from Verizon. This was not what my partner and I wanted to see. The Table below shows you a list of the prices starting at our purchase price on October 11<sup>th</sup> and progressing to the point when we realized that it wasn't successful stock on October 22<sup>nd</sup>. The Table is a list of the success and failure my partner and I have faced by choosing Verizon stocks. The first price listed is the opening price for that given day. The second price is the high price of the day while the third price listed on the Table is the low of the day. The fourth price is where the stocked closed during the evening of the given day. The final two columns are the volume and the adj. Close of the stock of Verizon. As you can see the stock has not received much jump during the first two weeks of our transaction. We accept the fact that no stock will have a huge jump in a two week period, but we also realize that Verizon does not have the potential to give us a great gain. The reason we decided to sell Verizon after the two weeks was because it seemed like it was another level stock that we shouldn't be involved with. As we said before as a position trader we are looking for the best stocks out there. We realize that we do not have much time to wait and see the progress of Verizon. Since we don't have the time and do not have the financial background like many other people, we decided to sell before Verizon dropped any lower. We have realized that as a position trader you must be very active in the stock market. We also realize that you must know what will benefit you and what will not benefit you and at this time Verizon did not benefit us.

Date	Open	High	Low	Close
22-Oct-04	39.79	39.82	38.79	38.97
21-Oct-04	40.1	40.16	39.32	39.79
20-Oct-04	39.93	40.15	39.65	40.04
19-Oct-04	40.8	40.8	40.11	40.31
18-Oct-04	40.77	40.83	40.49	40.83
15-Oct-04	40.8	41.24	40.73	40.87
14-Oct-04	41.09	41.13	40.42	40.77
13-Oct-04	41.5	41.9	40.93	41.07
12-Oct-04	40.7	41.36	40.52	41.34
11-Oct-04	40.92	41	40.64	40.85

 Table 5.4
 Verizon's statistics during trading period

Below is a graph of Verizon's prices from January to November. As you can see, Verizon has had much success during these time periods. The part that has caught my eye is the fact that Verizon, when dropping, has had very significant drops. Even though during October Verizon has reached one of the highest points it has ever reached my partner and I have experienced great loss during this week. During October it rose but then rapidly it dropped. The part that scared us the most is during the period between July and August. Verizon experienced great loss during this period of time. When we noticed this on the graph we noticed that our stock was moving more down each day. This was a great concern to us because of the past experience of this stock. If Verizon did not have such a great loss during that period of time we may have kept it to see where it may have went.

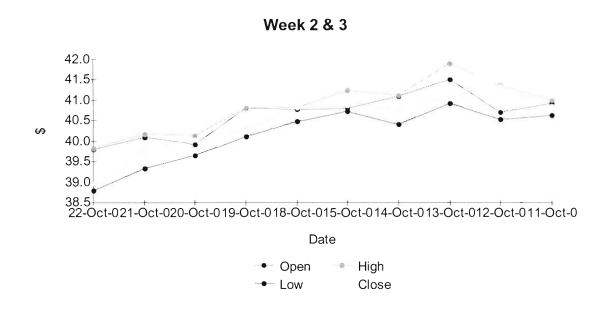


Figure 5.4 Verizon's 2004 to date price action

Intel on the other hand has given us much success. Intel's prices seemed to always be on the rise. On October 11<sup>th</sup> we bought in at a low of \$20.61. Since buying in we have not experience a price to drop that low. On the second week of our transaction we were not really getting much of the success that we had liked, but we stuck with it to see where it may go by the end of the week. As you can see below as the week went on we experienced more and more success and still seem to be getting the same results. The Table below is the same type of Table that we have above for Verizon. This Table lists all the same things. The only difference between this Table and the Table for Verizon is this Table shows much more success. Since buying in we have noticed more and more success and have realized this could be one of our best buy INS. Even though we are not getting huge jumps we still are moving up at a fairly rapid pace for the stock market.

Date	Open	High	Low	Close
22-Oct-04	21.64	21.77	21.26	21.3
21-Oct-04	21.64	21.91	21.41	21.69
20-Oct-04	20.73	21.46	20.73	21.45
19-Oct-04	21.06	21.31	20.76	20.8
18-Oct-04	20.56	20.8	20.35	20.79
15-Oct-04	20.67	20.83	20.38	20.61
14-Oct-04	20.98	21.05	20.45	20.51
13-Oct-04	21.36	21.53	20.86	20.99
12-Oct-04	20.32	20.52	20.22	20.28
11-Oct-04	20.68	20.84	20.31	20.61

 Table 5.5
 Intel's Statistics as of Week 2 of trading

This is a Table from week on to the end of week two. As you can see we have went up each day in our closing prices. To be exact we went up a total of \$1.08 in a 2week period. This shows great success because not many stocks have a jump like that in only two weeks. This is impressive because the DJIA average seemed to be very much the same for the given days but our stock seemed to keep rising. This shows that our stock is indirectly proportional to the DJIA or our stock doesn't really have much effect on it.

Below, is a graph of Intel showing the successes and failures of the company since January of 2004. The most important part of the graph is the part to the far right. On the far right, in September is the vicinity where my partner and I have bought in. If you observe in January, you can see that Intel started at a high price that we have not quite reached yet, but if you see in September even though it may have been going down, from September to November it is rising. This is the only part that really matters because during October is where we bought in and during October there has been great success into November.

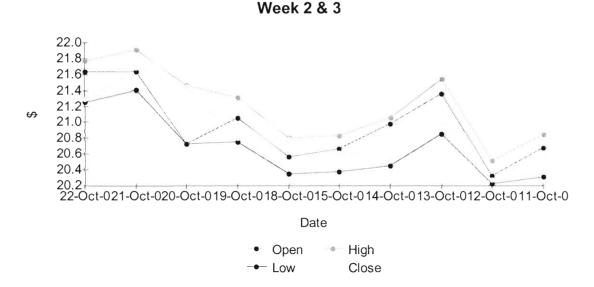


Figure 5.5 Intel's 2004 to date price action

### History of Dell

When Michael Dell was a college student at the university of Texas he had a vision to make a computer that customers would want. He wasn't much of a student then. He spent most of his time in his dorm room perfecting his masterpiece. Michael Dell founded Dell Computer Corporation in 1984. From there the company skyrocketed to success. Dell makes computers for businesses built to order. With just in time inventory and a direct model for manufacturing desktop computers Dell Computer Corporation, now known as Dell Inc., is one of the fastest growing companies in the world. It's ranked number 1 in global market share and is one of the premier business-to-business industries out there. Michael Dell waited for other companies to come out with up to date models and now that desktops and PC's are where they are today Dell is able to ship out computers that are built to order. Meaning if a company needed a certain amount of desktop computers by next week Dell could get the order and ship them out and have them received within the week. No other computer company can claim to do

this. It's for these reasons that we feel Dell would be a great choice to invest in stock. They are exploring other segments in the market these days like printers and if they are as successful with their new line of products as they are now with their desktop computers and PC's, then Dell Inc., is going to make us some money. They are expanding rapidly and customer satisfaction is at an all time high. We feel that with their new recent line of products entering the market this would be a good stock to invest in as position traders. We hope to make big gains with this investment and look forward to analyzing the results down the road.

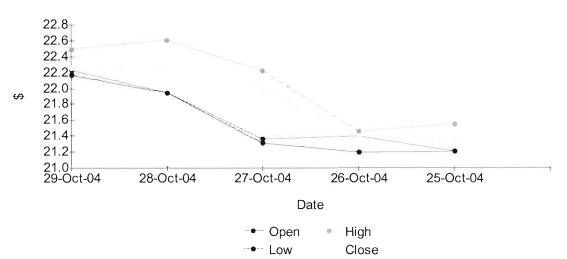
## Week 4 Results: Intel

Week 3		
SELL	Shares	Amount
Verizon	1223	47660.31
BOUGHT		
Dell	1379	47658.24

#### Table 5.6Sold Verizon, Bought Dell Amount of Shares and Price

During week 4 we decided to drop Verizon like what was stated above. When dropping Verizon we decided to pick up Dell. Above is a chart describing what we did. We took the amount that we lost from Verizon and bought the amount of shares possible for Dell. This was the only move we made during our whole simulation. We felt this was a smart move because Dell was a huge moneymaker and Verizon proved to be a huge bust for a position trader.







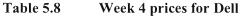
Date 29-Oct-	Open	High	Low	Close
04	22.23	22.5	22.17	22.26
28-Oct- 04 27-Oct-	21.95	22.61	21.94	22.27
27-0ct- 04 26-0ct-	21.36	22.22	21.31	22
04 25-Oct-	21.4	21.46	21.2	21.4
23-00l- 04	21.22	21.55	21.22	21.31
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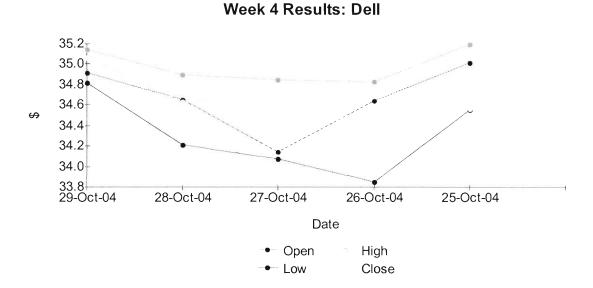
Table 5.7	Week 4	prices for Intel
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Intel during the third week of our transactions ended with a closing price that was higher than that of the first day. Above on the graph there is four series which our graphed out during this week. Each series represents a different thing. The series which is colored blue is the opening prices for the given day. Series two which is pink is the high price for each day. Series three which is yellow is the low price for each day, and series four which is turquoise is the closing prices for each day. As you can see the closing price and the high price are fairly similar during this week of our stocks. This is a good thing because it means we gained money each day and when we reached a high we barely moved down at all. The opening price for each day is considerably lower then the closing prices for each day. This is also very good because it means we gained money again during this week of our transactions. With the stock continuing to go up we will be experiencing much more money then what we started with in the beginning of our buy in. The chart above gives each number of the prices during the given week. If the numbers continue to go up you will keep seeing Intel appear on our report.

Open	High	Low	Close
34.92	35.14	34.82	35.06
34.65	34.9	34.21	34.63
34 14	34 85	34 07	34.59
• • • • •			
34.64	34.83	33.85	34.25
35.01	35.19	34.55	34.56
	34.92 34.65 34.14 34.64	34.92       35.14         34.65       34.9         34.14       34.85         34.64       34.83	34.9235.1434.8234.6534.934.2134.1434.8534.0734.6434.8333.85

### **Results for Week 4 Dell:**





### Figure 5.7 Dell price action during week 4

During week three my partner and I made a very important decision in dropping Verizon and picking up Dell. We based our decision on Dell because we felt that in the past they have been very successful in a short period of time. We chose this scenario because we are working in a short period of time and we feel this stock will give us greater success in the time span that we have to work in.

Above is the first week's performance for when we bought into Dell. As you can see from the graph that we have made, Dell has not performed up to what it should have. You can see that by looking at the high price for the week and see how the closing price is nowhere near the high price for each given day. If it continues in this direction we may have to also sell this, but for now we will give it sometime to see where it may lead us. The reason we feel we should give it sometime is because on October 29<sup>th</sup> the stock began to rise which is a good thing for anyone. It ended up on that date being fifty cents more than the first day that we bought in. If it continues to move up in this fashion we may be looking at some serious gains in the future.

The chart above shows the prices during the given week. The first week we bought in the closing price was nowhere near the high for the day. The second day the closing price went down until day three, four and five when it began to go up again.

Hopefully next week we continue to see Dell improving, but if it does not then selling will definitely be the best priority.

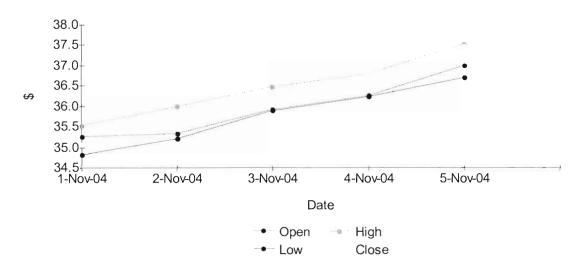
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## Week 5 of Transactions:

#### **Dell:**

Dell	Open	High	Low	Close
1-Nov-04	35.26	35.53	34.82	35.06
2-Nov-04	35.33	35.99	35.22	35.62
3-Nov-04	35.91	36.48	35.89	36.36
4-Nov-04	36.26	36.81	36.24	36.81
5-Nov-04	37	37.54	36.71	37.49

Table 5.9Dell's Price Statistics in First Week of Purchase



Week 5 Results: Dell

Figure 5.8 Graph Indicating Details of Dell's Performance During First week

Dell as you can see from chart and the table was very successful during the 4<sup>th</sup> week of our transactions. As the graph shows, Dell seemed to always close at a higher price than the previous day and the opening day price for the given day. As you can tell this is a very successful company when it comes to investing into the stock market. The chart above also shows much success for each day. If you notice the lows for each day you can tell that Dell Company did not stay down there. At the end of each day Dell was looking down at the lows and experiencing much higher prices. November 1<sup>st</sup> through the 5<sup>th</sup> was a very successful week for this company considering the fact that it started at

\$35.26 and ended the week at \$37.49. This was a \$2.23 increase for the week which is very successful in the stock market. If this continues to keep up we will be experiencing great things with Dell Company. In the later weeks we hope to see the same success that we are experiencing now. We will just have to wait and see how Dell performs into the upcoming weeks to decide whether this is a great stock for the trading style of position.

### Intel:

Intel	Open	High	Low	Close
1-Nov-04	22.19	22.49	22.15	22.44
2-Nov-04	22.34	22.88	22.26	22.61
3-Nov-04	23	23.12	22.41	22.67
4-Nov-04	22.48	22.88	22.48	22.88
5-Nov-04	23.15	23.38	23.12	23.36
Table 5.10	Intel's P	rices Duri	ng week 4	of Trading

Above is the chart that was given for Intel during the first week in November. During the time of November 3<sup>rd</sup> there was a 0.04 cash dividend which was posted for the day. The 0.04 cash dividend means that that each person who owns a percent of inlet stock receives 4 cents per share based on the number of shares outstanding. This means that there will be a 4 cent payout to each share that is outstanding. Which can be defined as a credit to cash and the dividends will be payable. This cash dividend is not found on the table, but I had to let you know that each person will receive the cash dividend so the values to not get messed up.

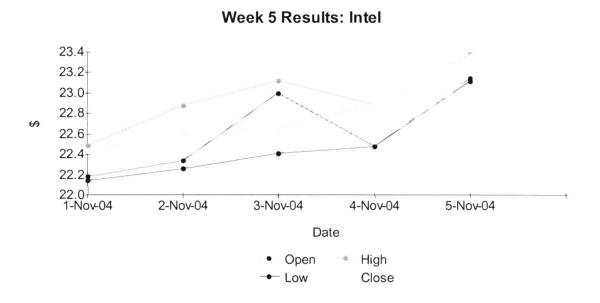


Figure 5.9 Graph of Intel's Price Performance During Week 4 of trading.

The chart and the graph both give you a visual of how successful Intel has been during the first week of November. As you can see each day Intel ended with a total that was high than the low price for the given day. You can also see that the highs for the day sometimes fell on the closing price which is also a good thing. The open price and the closing price for the given days are very different. This is good because they opening price is lower than the closing prices for each day which means we made money everyday. Intel again proved to be very successful during the 4<sup>th</sup> week of our transactions. We will continue to follow them as the time to the completion of our project is near.

## Week 6 and 7 Report

Intel:

Date	Open	High	Low	Close
8-Nov-				
04	23.22	23.41	23.12	23.23
9-Nov-				
04	23.2	23.25	22.98	23.08
10-Nov-				
04	22.91	23.04	22.54	22.86
11-Nov-				
04	23.03	23.27	22.89	23.17
12-Nov-				
04	23.32	23.76	22.88	23.69
15-Nov-				
04	23.56	23.79	23.41	23.77
16-Nov-				
04	23.63	23.88	23.46	23.84
17-Nov-				
04	23.99	24.54	23.96	24.32
18-Nov-				
04	24.26	24.99	24.21	24.8
19-Nov-				
04	24.68	24.73	24.11	24.16

Table 5.11 W	eek 6/	& 7	prices	for	Intel
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Week 6 & 7 Results: Intel

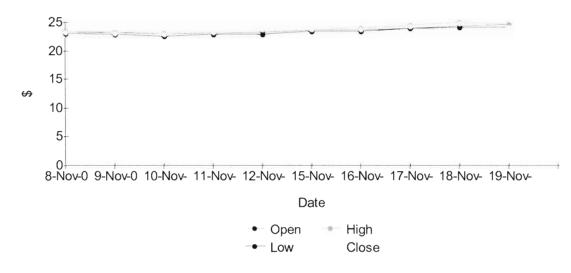


Figure 5.10 Intel price action during weeks 6 &7

Above are the results for Intel during weeks five and six. As you can from the chart during week 5 Intel seemed to be doing very unsuccessful. It was until week 6

when the performance started to pick up. As you can see from the graph Intel began to rise considerably in the  $6^{th}$  week opposed to the  $5^{th}$  week of out simulation. Since Intel began to pick up its performance it is definitely a keeper.

The progress can clearly be seen on the graph above. If you view the graph you can see that the highs and the close for each day began to reach the same spot on the graph by the final day of this week. Even the lows for the week were an improvement from last week. If Intel continues to move up we will be seeing a huge money market in a short period of time.

# Dell: Week 6 & 7 Results Week 6 & 7 Results: Dell

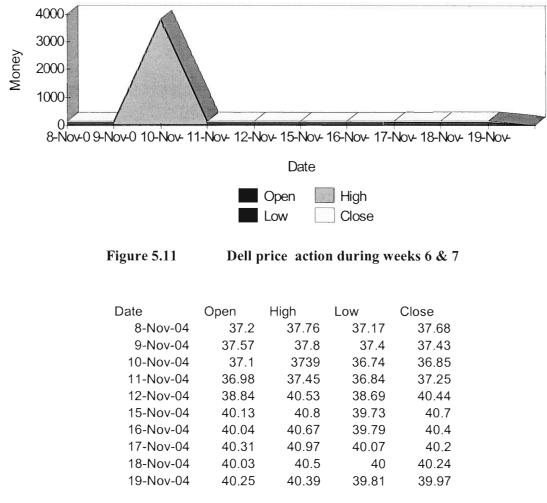
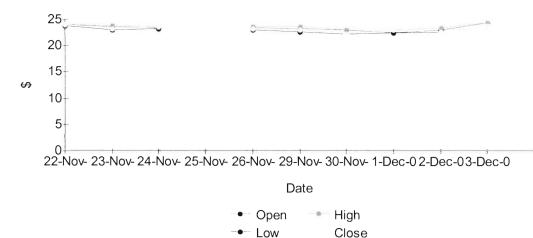


Table 5.12Weeks 6 & 7 prices for Dell

Above are the results from weeks 5 and 6 of Dell. Above we have chosen to use a different graph to depict the closing prices huge jump during the 2 given weeks. We decided to use this graph because it shows everyone the huge jump that we experienced this week. The other graph we have been using which compares the open, high, low and close would not work in giving you the huge picture of the success we have experienced this week. Even though the last day of the transactions ended going down we experience high closing prices for each day. The graph above can easily be read if you know one thing about it first. The numbers 1 through 10 are the dates starting with November 8<sup>th</sup> and ending with November 19<sup>th</sup>.

The closing prices that we have experienced during this week were by far the best we have ever experienced since we have started our simulation. If we continue to perform this well we will definitely be looking to gain a lot more money at the end of this simulation.

### Intel: Week 8 & 9 Results



Weeks 8 & 9 Results: Intel

Figure 5.12 Intel price action during weeks 8 & 9

Date	Open	High	Low	Close
22 <b>-</b> Nov-04	23.96	24.12	23.82	24.1
23-Nov-04	23.73	23.93	23.15	23.37
24-Nov-04	23.54	23.68	23.31	23.61
25-Nov-04	N/A	N/A	N/A	N/A
26-Nov-04	23.39	23.62	23.18	23.21
29 <b>-</b> Nov-04	23.3	23.6	22.77	23.06
30-Nov-04	23.04	23.09	22.35	22.38
1-Dec-04	22.5	23.1	22.45	23.1
2-Dec-04	23.11	23.4	22.63	22.71
3-Dec-04	24.43	24.5	23.9	23.91

Table 5.13Week 8 & 9 prices for Intel

Above is the graph and chart of Intel during weeks 7 and 8 of our simulation. The reason the Graph drops so much above is because of the November 25<sup>th</sup> date which there no information provided to us due to Thanksgiving. If the information were provided then the totals would be very similar. As you can see from the other information that was received all the totals seem to be very similar. There was no outstanding jumps or loses during this time. As a position trader we feel that Intel has given us its last strive to be successful. Next week, we feel before the simulation is over, that we will sell Intel and try to find a company that we feel will give us the biggest jump in the competition. Until now we have had full confidence in Intel's ability to rise in the stock market. We have also noticed that when Intel drops or gains rapidly the Dow Jones Industrial Average begins to do the same.

The charts above are a clear picture to a stock that has taken its last gasping breathes to the top of the stock performance. We feel if we do not sell now it may be too late to regain money in the upcoming days ahead.



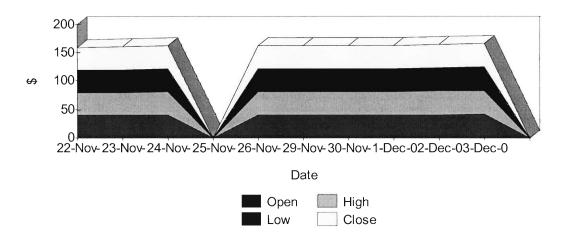


Figure 5.13 Dell price action during weeks 8 & 9

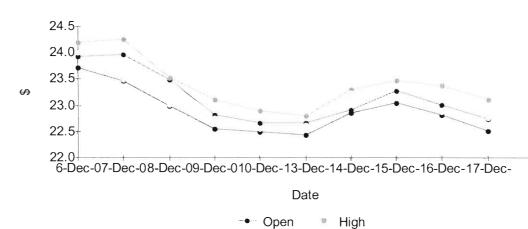
Date	Open	High	Low	Close
22-Nov-04	39.85	40.25	39.75	40.2
23-Nov-04	39.91	40.52	39.8	40.41
24-Nov-04	40.54	40.79	40.39	40.76
25-Nov-04	N/A	N/A	N/A	N/A
26-Nov-04	40.5	41	40.47	40.58
29-Nov-04	40.57	40.97	40.45	40.82
30-Nov-04	40.83	40.92	40.15	40.52
1-Dec-04	40.35	41.58	40.13	41.36
2-Dec-04	41.02	41.77	40.96	41.45
3-Dec-04	41.95	42	41.52	41.65

Table 5.14Weeks 8 & 9 prices for Dell

Above again we used an area chart to show the results in a clearer picture. Dell continued to rise again as the High prices and the closing prices were fairly similar. Also November 25<sup>th</sup> is not seen on the chart nor the graph since it was a holiday.

We have been experiencing great success in the past couple of weeks in Dell. Prices continue to rise and at times dropped. Even though the prices did drop they still are much higher than what we started with before and we see nothing but success in the future with this company. The chart above shows the great jumps that we have been experiencing during the last couple of weeks of our simulation. We gained up to a \$1.45 from the beginning of the  $7^{th}$  week to the end of the  $8^{th}$  week. If we continue to experience this success the money will be rolling in for us at the end of our simulation.

Next week we hope to continue to be showing you an area chart since the only time we do show you it is when we have a huge jump in our prices. Hopefully next week Dell will have us skyrocket over \$42.00.



Week 10 &11 Results: Intel

Figure 5.14	Intel	price action	during	weeks	10	&	11
		prive wetton		The Cito	<b>.</b>	~	

Low

Close

Date	Open	High	Low	Close
6-Dec-04	23.92	24.19	23.71	24.01
7-Dec-04	23.97	24.25	23.46	23.48
8-Dec-04	23.49	23.52	23	23.01
9-Dec-04	22.82	23.11	22.55	22.76
10-Dec-04	22.67	22.9	22.5	22.56
13-Dec-04	22.66	22.81	22.44	22.63
14-Dec-04	22.92	23.3	22.85	23.24
15-Dec-04	23.27	23.46	23.05	23.14
16-Dec-04	23.01	23.38	22.82	22.87
17-Dec-04	22.75	23.1	22.51	22.77

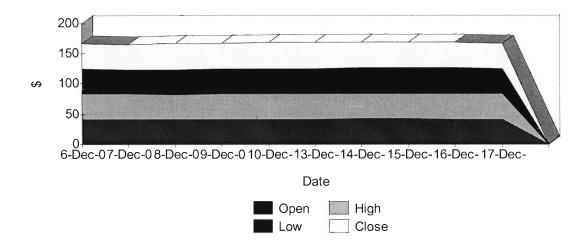
Table 5.15Weeks 10 & 11 prices for Intel

This was yet another disappointing and final two weeks for Intel stock. Our goal was ultimately to make profit by investing in this stock and unfortunately we did not have the increase in prices that we had hoped for. This week started off strong with a closing price of 24.01. From there for the next 11 days the prices steadily decreased to a final closing price of 22.77. In the beginning of week 9 we were hopeful for a strong finish with Intel. December 14<sup>th</sup> started off promising with an increase in closing price of 23.24. From there it was not uncommon to see the stock drop once again down to 22.77. We could only hope that the start of week 9 was going to make our predictions come through and Intel was going to be a profitable stock for us. Unfortunately, that did not happen, if we were to continue tracking these prices we would sell Intel by the start of next week and invest in a new stock. Needless to say this wasn't what we had hoped for but Intel is still a strong company and once they decide their vision on where they want to take this company look for them to be a successful moneymaker in the next couple of years as their brand name still has value in today's markets.

#### Week 10 and 11: Dell

Date	Open	High	Low	Close
6-Dec-04	41.61	41.98	41.3	41.65
7-Dec-04	41.66	41.91	41.18	41.31
8-Dec-04	41.43	41.9	41.25	41.86
9-Dec-04	41.53	42.57	41.45	42.18
10-Dec-04	42.14	42.28	41.81	42.09
13-Dec-04	42.09	42.39	41.82	42.38
14-Dec-04	42.35	42.45	42.09	42.33
15-Dec-04	42.33	42.55	42.12	42.19
16-Dec-04	42.08	42.44	41.93	42.27
17-Dec-04	41.93	42.33	41.43	41.43

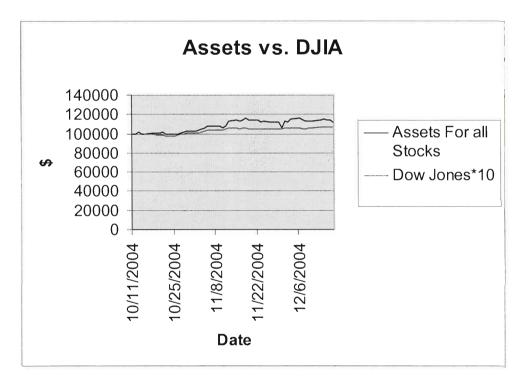
Table 5.16Weeks 10 & 11 prices for Dell

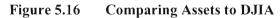


Week 10 & 11 Results: Dell

Figure 5.15 Dell price action during weeks 10 & 11

We were pleasantly surprised with how Dell has done for us. These two weeks were a fairly steady two weeks as far as prices are concerned. On 6Dec04 Dell started out with a closing price of 41.65 (see table); by the end of week 9 the final closing price was 41.43. So the price did drop but it only dropped by .22. The highest closing price occurred on 13Dec04 with a price of 42.38. It would have been nice if we sold then, but we were going to wait the week out and see how things developed. Intel had a good day at the stock market on the 13<sup>th</sup> and 14<sup>th</sup> of December as well. We are happy with how this stock turned out for us. We could have enjoyed maybe seeing a little bit of a climb in price as we tracked the stock, however it is what it is, and it's just wishful thinking that you can become a millionaire overnight when dealing with the stock market. Based on our numbers and the weeks devoted to tracking this stock we anticipate Dell doing great things in the future. It is a well-known company at this point in the game and would be a reliable stock to invest in to make a few bucks.





Date	Assets For all Stocks	Dow Jones*10
17-Dec-04	112371.99	106499.2
16-Dec-04	113772.95	107056.4
15-Dec-04	114317.65	106914.5
14-Dec-04	114729.05	106764.5
13-Dec-04	113962.95	106383.2
10-Dec-04	112772.67	105432.2
9-Dec-04	113381.98	105528.2
8-Dec-04	113447.2	104942.3
7-Dec-04	113928.97	104405.8
6-Dec-04	115683.61	105470.6
3-Dec-04	115163.21	105922.1
2-Dec-04	112254.01	105851.2
1-Dec-04	113076.04	105902.2
30-Nov-04	106142.56	104280.2
29-Nov-04	112234.34	104759
26-Nov-04	112267.28	105222.3
24-Nov-04	113485.9	105203.1
23-Nov-04	112421.01	104926
22-Nov-04	113902.4	104894.2
19-Nov-04	113730.79	104569.1
18-Nov-04	115655.76	105725.5
17-Nov-04	114436.12	105495.7
16-Nov-04	113547.44	104876.5
15-Nov-04	113791.32	105502.4
	100	

12-Nov-04	113238.7	105390.1
11-Nov-04	107578.17	104698.4
10-Nov-04	106274.51	103854.8
9-Nov-04	107608.05	103863.7
8-Nov-04	108316.7	103913.1
5-Nov-04	108370.07	103875.4
4-Nov-04	106267.87	103147.6
3-Nov-04	105137.86	101370.5
2-Nov-04	103871.84	100357.3
1-Nov-04	102787.18	100543.9
29-Oct-04	102350.5	100274.7
28-Oct-04	101781.79	100045.4
27-Oct-04	101071.61	100020.3
26-Oct-04	99147.15	98884.8
25-Oct-04	99356.3	97499.9
22-Oct-04	99334.11	97578.1
21-Oct-04	101283.11	98657.6
20-Oct-04	101006.62	98869.3
19-Oct-04	101006.62	98976.2
18-Oct-04	100371.63	99563.2
15-Oct-04	99983.87	99333.8
14-Oct-04	99618.97	
13-Oct-04	101150.35	
12-Oct-04	99978.1	
11-Oct-04	99959.41	

## Table 5.17Comparing assets during given dates to DJIA

Above is a chart that has the Assets of all of our stocks compared to the DJIA. As you can see from the graph we performed better than the DJIA. If we continued through our simulation we may have made more trades and definitely more money. Our earnings looks as followed:

Money Made	
Day 1	99959.41
Day 49	112371.99
Accumulated Money	12412.58

## Table 5.18 Money accumulated throughout the simulation

This is a chart comparing our total assets from day one to our total assets the day we completed our simulation. As you can see we made a little over 12 thousand dollars. If this continued longer we may have sold Intel and seen where that could have brought us. The last two weeks we decided to keep Intel since it has been a huge moneymaker for us. I still do not regret our decision in keeping Intel, but if facts wherever seen we may have been wrong in doing so. The only thing that we can be happy about now is the fact that we performed better than the big market when it came to our assets.

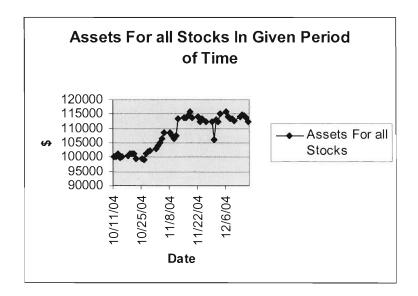


Figure 5.17 Comparing our assets over time

The other graph directly above is a graph that shows our asset compared to the time of our simulation. As you can see we had our ups and downs but we ended up in the up column. If we continued through the whole year I don't see us going anywhere but up, but only time would have told that.

#### 5.4 Conclusions

Overall this was an exciting and challenging project for us! We learned a lot about position trading and how it can be useful in today's stock market. We had an interesting time following the stocks we invested in as well as writing about the weekly results for our stocks. The stocks we decided to invest in were Verizon, Intel, and Dell. Intel and Verizon turned out to be disappointing for us as we had high expectations for both of them. However, investing in the stock market is not always a safe bet.

On December 16<sup>th</sup> 2004 we ended up with \$112,371.99 in total assets for both stocks. When we started on the first day we had \$99,978.10 in assets for both stocks. So we can finish this product on one positive note in that we made profit over all. Was it as much as we had hoped for? Well, we were hoping for a higher margin, but what's done is done. We ended up making \$12,393.89 of profit. This seems like a lot of money but let's not forget that we invested \$50,000 worth of shares for each stock. If this project was not a simulation but rather real life then we could walk out of this investment with our shirt on our backs and when it comes down to it that's what's important. We can also be fortunate in that we did not lose any money and that our stocks didn't declare bankruptcy during this simulation. However, if a company was on the verge of bankruptcy, through our research and evaluations of companies we would have been able to detect whether a company was on the fence or not from going down.

This project made us realize how meticulous you must be when it comes to recording data. It was important for us to record the opening and closing prices each day so that we could get an idea of how the week might turn out for our stocks. When we finished our reports it is amazing to see what three terms of work looks like. We had all these prices day in and day out, so that we could see if what we were investing in was actually helping us or hurting us. So the first lesson we got out of this project is to be a truly effective investor, it would be wise to keep track of the numbers each day to get an accurate idea of the status of the company you invested in. This lesson really goes without saying but I bet there are a lot of people out there who don't monitor their stocks as often as they should.

After investing in companies that we felt were strong and full of brand equity we realized that it doesn't matter if the company is well off. Intel and Verizon are companies that have come a long way with their business. Intel was a pioneer with microprocessors and Verizon being a front-runner in telecommunications. The stock prices for both of these companies were less than impressive. The reason for this was that these two companies really don't bring much to the table these days. It would have been great if we invested in these two stocks a few years ago; Intel was coming out with a new Pentium chip and Verizon was establishing itself as a leader in telecommunications. It's times like these where companies make out well in the stock market. They come out with disruptive technology that will change the way society functions. Intel and Verizon have been relying on their name to bring in the money as AMD and Cingular are taking steps to take over their respective markets. Dell on the other hand has been growing since it was established. Michael Dell has a great vision of where he wants to take his company and it has recently been coming out with a new line of printers. Printers is an entirely different segment compared to desktop computer, however I'm sure that they will sell at a rapid pace just on the name alone. When you think Dell, you think reliable. We were very happy in our decision to drop Verizon and start investing in Dell. It turned out that Dell was a real moneymaker for us.

By investing in the stock market, you're taking a chance. There are more reliable ways to invest your money, i.e. mutual funds and bonds. It's a risky game investing in stocks. However, you can come out with a lot of money or nothing at all. Technology is changing the way we live, and presently it is evolving faster than ever. When it comes to position trading it is important to realize that just investing in a well know company is not enough. You have to really dig deep in research and be aware of current events. Look for the company that is coming out with technology that will change the way we live. It's those types of companies that will make big gains in profit and overall make you a wealthy person.

# **Chapter 6: Conclusion**

### 6.1 **Our Final Results**

The final results of the multi-week trading simulation were much different than we had expected. We had expected to end the simulation with just above the amount of money we started with. The reason we expected this was that we did not enter the simulation with the purpose of obtaining a large profit but rather obtaining as much experience and information as possible. Naturally, the human being learns better from a loss than from a gain. Our expectations were to maybe take losses early in the simulations from mistakes and as the simulation progressed our experiences would enable us to turn those loses into gains. Following, is a chart illustrating the mean average of the four combined assets in each trading strategy versus the Dow Jones Industrial Average (multiplied by a factor of ten for comparison).

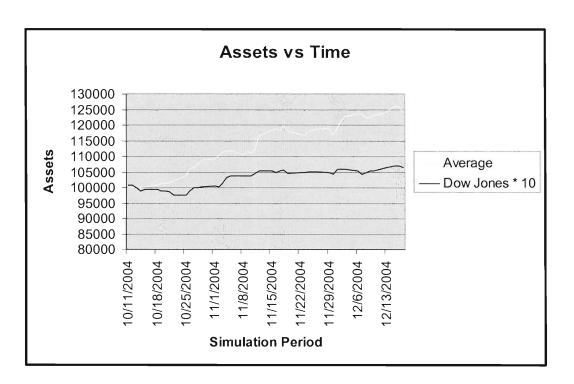


Figure 6.1 Chart Comparing Average Assets of all Groups vs. Down Jones.

As indicated in figure 6.1, our experience with the stock marked was a positive one. When compared to an index, such as the Dow Jones Industrial Average, it is obvious that we have taken advantage of a semi-bullish market. The growing distance between our average and the Dow Jones Industrial average could indicate the growth of our experience. Ideally, if the simulation where to continue, this distance would keep growing or increase at larger rate.

Final Profit					
	<b>Final Assets</b>	Simulation Profit	Percent Gain		
Long Term	106544.1	6544.1	6%		
Short Term	145865.1	45865.1	31%		
Swing	131810.0	31810.0	24%		
Position	112372.0	12372.0	11%		

Table 6.1Final Profits of Each Group

## 6.2 Conclusions on Trading Strategies

As stated in the introduction, each trading strategy has its own distinct set of common characteristics. For our simulation, we experimented with each of the broad classification of methods to gain a feeling of where our place in the stock market would be in the future. We have concluded that although the idea of each of these concepts is common, the results of using them are not trivial. Each strategy is a tool that can be used in many ways to produce different outcomes. Figure 6.2 compares each strategy's progress throughout our simulation period.

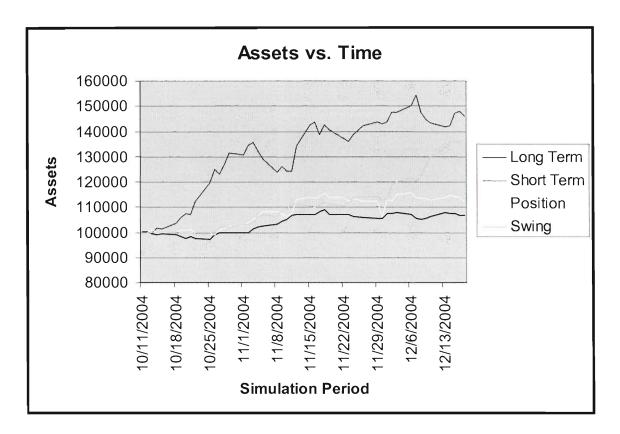


Figure 6.2Assets vs. Time Chart Comparing Each Method

As figure 6.2 illustrates, the most successful strategy in this simulation was short term trading. All of the other methods followed a similar path. The reason for the large difference with short term is because of the stock selection of that particular group. As shown in the figure, the swing trading segment of the simulation jumped near the end, due to a large investment in a successful swing. Due to the inexperience of our group as a whole, along with the time factor, I believe that commonly the short term investors, such as the swing traders and position traders, would have eventually returned a larger profit.

### 6.3 What We Learned

The most useful gain throughout this simulation was experience. Our entire group has experimented with different trading strategies, which in turn, may possibly help set

their financial futures. Throughout the simulation, we learned key strategies for following stock market trends, pricing charts, and pertinent company information. These techniques are vital for successful participation in the stock market.

In investing we learned that the most important factor is time. Whether you are involved in a long or short term investment, the key to obtaining success is knowing when to purchase and sell. The stock market can be a very volatile environment; a large gain over six months can drop within a few days. It is crucial for a trader to be familiar with signs and trends of the market to predict when these changes will occur. The more education and experience a trader has, the more likely that trader will be able to predict market trends; but one must realize that drops and trend reversals can come at any time without warning.

Another very important factor to consider when being involved in the stock market is risk. Risk can be an advantage or disadvantage when trading. Advantages come when the trader can control a healthy ratio of risk to return. Ideally, one would want a low risk situation that has a high probability of a large return, however this situation is very rare to non existent in short term trades. Long term trading involves a general low risk with a large return but the price paid is the amount of time it may take to obtain these returns. In short term trading such as swing trading, we experimented with ways to control risk by investing in less volatile or slower moving swings. Again, with this method, time becomes a factor when trying to achieve a large gain. A disadvantage of risk is when a trader involved in a risky investment becomes nervous and sells short. On the other hand a trader involved in a low risk investment may overlook signs and miss a sale. The key to any investment is to be aware of risk and attempt to control it. In this simulation, we learned a great deal but the most valuable asset that we gained was experience in the market, for this is what separates a professional from a "recreational trader". We plan to continue our observation of the stock market until we develop a solid foundation. Our plan is to eventually be able to expand our assets by investing to gain a financial edge for the future.

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