Reassessment Question

Title:

Thematic Investing and Investment Proposal.

Objective:

To understand the key concepts, approaches, evidence and models of modern financial theory and practice.

Task Description and Context:

You are working for an asset manager firm in London and you are asked to create and investment proposal for a new client. The potential investor has not disclosed his risk aversion level yet, therefore you are asked to include in the investment proposal two different portfolios reflecting two different levels of risk aversion. The client would like to invest in a portfolio where the risky component is chosen according to an "investment theme".

The investment horizon of the client is medium to long-term (5 years) and therefore he would like to choose and investment proposal with a strong motivation behind.

The investment theme chosen is E-commerce and the 5 selected stocks are:

1) Amazon,
2) AliExpress
3) Etsy
4) Alibaba
5) E-bay

Considering the above information, you must prepare an investment proposal followed up by an overall report that carefully describes the financial instruments that you have chosen and upload it also as a PDF file. You may also choose to upload the excel file that you have used for computations.

a) An investment proposal + graphs and statistics (1500 words max)

1. Risky assets

Include the 5 chosen risky assets (e.g. stock, funds, ETFs). For each financial instrument download the monthly adjusted closing price between (01/01/2014 – 31/12/2019) and calculate the monthly returns. Download also the monthly adjusted prices for a reference market. For each stock you should provide the following information: **1)** The Annualized expected return **2)** The Annualized volatility **3)** The Annualized Risk Premium **4)** The Annualized Sharpe Ratio **5)** The Beta **6)** The Unique Risk **7)** The CAPM predicted return **8)** The alpha.

2. The optimal Risky portfolio (0RP)

Compute the optimal risky portfolio (ORP) weights for the chosen financial instruments. Present the asset with the pie chart and explain the rationale behind it. Remember that your client might not be familiar with this topic and it's therefore crucial that you are clear about the terminology and what are the advantages and disadvantages of the two asset allocations. Provide the summary statistics for the presented portfolios: **1)** The Annualized expected return **2)** The Annualized volatility **3)** The Annualized Risk Premium **4)** The Annualized Sharpe Ratio **5)** The Beta **6)** The Unique Risk **7)** The CAPM predicted return **8)** The alpha.

3. The Complete portfolios

Compute the Complete Portfolios with the ORP from the previous point. To compute the complete portfolios you have to assume two different level of risk aversion (A). In one case you should assume that the client is a strongly risk averse client. In the other case you should assume that your client is either risk lover or neutral.

You can assume the average for the considered period of the 3 months T-bill rate for the risk free rate (annualized)[3].

Present the following summary statistics for the two different complete portfolios:

- - Annualized Returns
- - Annualized Volatility
- - Annualized Sharpe Ratio

Plot the Capital Allocation Line (CAL) and show the position of the ORP and the 2 complete portfolios.