Case study beta management

Business

Tanya Nagoya Tang Dylan William Simmer Gabble Secretes Business Purpose and Clients of Beta Management The mall business purpose of Beta Management Is to “ enhance returns but reduce risks for clients via market timing,” which is also one of their stated goals. Thus, Ms. Waffle aims to invest in the index during bull markets and exit from the index during bear markets. Ms.

Wolfe, a market strategist, picked the name Beta Management to align to the company’s goal with its aim to “ maintain and adjust equity market exposure” through the Vanguard’s Index 500 Trust and other potential stocks.

The clients are generally high-net-worth individuals and small institutions. Market Timing Market timing means making Investment decisions? mostly decisions of buying or selling financial assets? based on the prediction of the market price movements In the future. For example, If Ms.

Wolfe predicts that the future market price will be declining, she will try to sell some of her Vanguard’s Index 500 Trust fund to avoid losses caused by the declination. In other word, she will try to reduce the portion of assets on Vanguard’s Index 500 Trust fund.

If the prediction is right, Ms. Wolfe successfully avoids the decline of value of Vanguard’s Index 500 Trust fund. As a result, the value of the company’s assets was protected. On the other hand, if Ms. Wolfe predicts that the future market will be going up, she will try to buy more of Vanguard’s Index 500 Trust fund to capture a chance at increasing her assets’ value.

If the prediction is right, the value of the company’s assets becomes higher. In this way, she can “ add value” to her company’s assets. As we know from the description, Ms. Wolfe successfully predicted the market declination that will occur through June o September 1990. And successfully predict the market will climb back up after September 1990. Furthermore, she took action to her prediction and be able to add value to her company’s assets.

Why Change? Ms. Wolfe is trying to increase her client base through stock picking, which was a major investment factor for Beta Management’s potential and lost clients. Ms.

Wolfe wants to select some smaller stocks and increase Beta’s assets in equities. Ultimately, she wants to increase her return on investment by increasing equity exposure to 80% with purchase of two new stocks. Her portfolio would become skier, but It should provide a greater return.

Calculator ERIE Ana Brown Group Ms. Wolfe is interested in the California REID and Brown Group stocks for the following reasons: 1) the two stocks were recommended by her analyst and 2) Ms. Wolfe would like to pick one of the two to stocks to implement her program of increasing equity exposure and invest in individual stocks.

Both are potentially good investments that can help Ms. Wolfe achieve her new objective. However, the stock that provides a lower amount of risk with the greater amount of return will be the better of the two.

Standard Deviation and Volatility The standard deviation for Vanguard is . 04606, California is . 09231, and Brown is . 08167. These numbers show that the two stocks are twice as volatile as the Vanguard Index and the California stock carries more risk than the Brown stock. Since the California stock carries more risk, it should provide a higher return.

However, in actuality, this is not necessarily the case. 99% Vanguard and 1% either California or Brown In a portfolio (Portfolio A) consisting of 99% Vanguard Index and 1% California REID, the weighted average risk for Vanguard would be . 4560 and California would be . 0009. Therefore the average risk Portfolio A would be .

4569. In a portfolio (Portfolio B) consisting of 99% Vanguard Index and 1% Brown, the weighted average risk for Vanguard would be . 4560 and Brown would be . 0008. Therefore, the average risk Portfolio B would be . 4568.

The average weighted return is 1. 688% for Portfolio A and 1. 0848% for Portfolio B. Therefore, the Brown stock is the better investment because it carries lower risk with a greater return; making it superior to the California REID. Regression A regression performed on each stock produces a beta of .

0043 for California REID ND . 0002 for Brown. These calculations mirror the situation above and show that the Brown stock carries lower risk with a greater return. Please reference the spreadsheet for the complete regression analysis on each stock. Recommendation In our opinion, we think Ms.

Wolfe should pursue stock picking. Because from a client recruitment standpoint, buying assets other than the Vanguard’s Index 500 Trust fund will definitely diversify the company’s assets. In this way, it can alleviate the resistance from the potential client that is described in the case. More clients mean more money. This is definitely a plus for Beta Management Company. We recommend the Brown Group stock for Beta Management Company.

There are several reasons for that: First of all, we believe that the Brown Group stock will trend upward.

Compared to the California REID, the trend for the California REID stock is uncertain because the Torture AT ten real estate Ministry Ana ten company Is unclear. I née volatility associated with the California REID will make predictions and the exercising of the market timing strategy difficult. Second, we notice that the Brown stock returns dropped substantially in late 1989 ND late 1990, but we also identified the possible reason for this declination? the major restructuring program. Because of this program, the company's earnings have dropped due to its unstable situation.

But as the program proceeds forward, the company's structure will become more and more complete; the company will be in a much more efficient and stable stage, which will generate more earnings. As earnings increase, the market value, I. E. The stock price will reflect the upward trend as well. This provides strong support for picking this stock.

Third, Beta Management Company is able to identify an attractive opportunity for eying the Brown Group stock. Compared to the California REID stock, it's much clearer on the market timing.

Finally, as we can see from the investment return graph, the investment return of the Brown Group stock is higher than that of the California REID stock in general. Since the California REID stock is the riskier of the two stocks (because the standard deviation of the Brown Group stock is lower than that of the California REID stock), the Brown Group stock is the better choice because of its higher investment return and lower risk. For the reasons we discussed above, we recommend the Brown Group stock.