How The Stock Market Works

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Introduction

In this project, investment in stocks is done on an online website to simulate real-life trading. Different industries are included in the practice of creating a portfolio of diversified investments. One mutual fund is also purchased to see how it behaves in market trading. This stock market paper will show how the practical implication of trading has worked. The strategy used for investment, any changes in strategy, and the overall performance observed. The key learning outcome of this project is also observed.

Discussion

Before moving on to the details of investment, let us discuss some of the details about how investment is done in the stock market. The basics about stocks and how they are traded in the stock market are described.

Buying a stick means that the person holds ownership in the market. The estimated worth of the company determines the stock price. For further speculation in the market, the supply and demand rule is followed to determine the overall pricing level. Stocks are traded in markets for stocks such as NYSE, which is the New York Stock Exchange, which is an example of a stock market. (U.S. Securities and Exchange Commission, n.d.) Similarly, companies get themselves registered in their respective stock markets. The company gets money from selling IPO and does not get any return for further speculation in the market.

The reason why shares are bought is that their value changes over time. There is a chance for the investor to win and lose cash by making the right decision at the right time. Traders and investors make a change in the pricing of stocks. Other than capital return, some established companies also offer a dividend to the shareholders. This dividend comes from the company's earnings in a year. Many other benefits come along with the purchasing and selling of stocks.

Portfolio Selection And Why These Stocks Were Chosen

The balance limit provided was 25,000, and I had to invest in a portfolio comprising six stocks. One of them should be a mutual fund, and others can belong to any category of stock. The stocks I chose for investment and their reasoning is as follows.

In mutual funds, I invested in PTTAX, an A-class fund of PIMCO. The reason behind selecting this is its high total return. It not only provides high returns but also protects the principal. This is a high-quality fund, and I selected it to diversify my portfolio. Unlike other bond funds, this has a worldwide presence that decreases the level of concentration. The risk is easy to manage because of its high flexibility and response to economic conditions. The number of stocks I invested in this mutual fund is 3000. It will provide a strong return in the long term and have the potential for both income as well as capital appreciation.

In stocks the first stock I invested in was APPLE. I bought 25 Apple stocks at a total price of 4,449.75. The reason for choosing this stock is its high market demand. (Mankiw, 2018) If I need instant money in the future, I will be able to generate it by selling this stock. This company provides massive returns in the capital. As this is an established company, it also offers a high level of dividend income. It is possible to get Apple stocks at a bargain price. Although it has high valuations, it is still available at a discount.

The second stock I chose was on Facebook. I bought 23 Facebook stocks for 4,178.87. The third stock is Google. Five units of Google stock were purchased at 5,510. The reason for choosing these two stocks is somewhat similar. Both these companies are performing well in the world of online advertisement. Even in the future, these companies get a larger share of the market and produce high returns. The level of risk in these stocks is less.

The last stock I purchased was from Home Depot Company. Fifteen stocks were purchased at a total price of 2744.40. This is a popular company, and if we look at historical data, we can see that it has paid high dividends to its investors. In 2017, its performance was not up to expectations, but it is still in the competition to provide investors with a high level of return.

The total amount invested sums up to 19,883.42. The balance remaining after the investment is 5,116.42. This is an amount left for safety purposes. In case any stock has an increase in the net price. This may be useful for the future trading and withdrawal of funds.

Description Of Trade

Here, I will discuss the profit I gained after making trade transactions. The mutual funds of PTTAX are still at 3000 and have not experienced any profit or loss because their price is constant and no transaction is made.

In terms of stocks, HD bared a loss of 60, which is negative 2.19% as compared to the actual price. FB gained a profit of 1.87%, which is 78.20 in terms of money. The overall price of Google raised by 161.70 in this portfolio, which is 2.93%. APPLE earned a profit of 0.75, which is 0.02% of the actual price.

These values show that the portfolio is in a long position with a net worth of $20,064.07. The actual price of the portfolio at the time of investment was 19,883.42. Therefore, the net benefit is $180.65.

Strategy Used

The approach I used in the investment of the portfolio is defensive. All the stocks I chose for investment were of well-reputed companies giving out a high return. The level of risk was close to none. The risk of losing the principle was low. The diversification in the portfolio was brought about by keeping the stocks from multiple sectors. Mutual funds, social media, tech manufacturing, and home supplies companies were selected as well.

The Overall Performance Of Stocks And Thorough Search Of Stocks

The overall performance of stocks was good. The portfolio gave out a positive return. Only Home Depot's stock went through a loss of $60. Google provided the highest level of return. Mutual fund investment remained constant because of no variation in price. Apple stocks provided a minimum level of return with only a 0.02% rise in the price level.

This high performance was due to the defensive approach to investment, as all the stocks had a very low level of risk factor. The number of stocks was less because the share prices of these companies were higher.

These stocks were selected for investment after proper market research. The risk level of these stocks was really low, and they have performed well over the past few years with good return yields.

Learning Outcomes

This game was helpful in understanding the real-world scenario of investment. Before entering into the actual trading environment, this virtual trading scenario gave me the experience. It is the right thing to do for practice. In order to benefit from stock market investment, routine practice is important. A clear understanding of financial risks and core concepts of investment. The interface of this virtual stock market was also easy to understand and handle. Rather than risking the real money in stock market operations, it is the best practice to do it with virtual money. The level of exposure was increased because of this exercise. It developed a sound level of skills for investment in the future.

References

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Mankiw, N. G. (2018). Principles of economics (8th ed.). Cengage Learning. https://www.cengage.com/c/principles-of-economics-8e-mankiw/