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New Report 1

Summary:

From the USA Today article, "Spread the Wealth: It's Not Just 'Popular' Stocks that Go Up", Adam Shell illustrates that current investors are largely "attached" to Wall Street's high-profile company stocks; companies such as Tesla, Apple, and Facebook from the technology sector receive the most buy orders from investors because these companies "get the most press coverages, the most PR, and the most adulation." The author emphasized that although these technology giants have the most spotlight on the stock market, investors should not overlook less-glamorous corporate stocks from other sectors because often times, the stocks from these "less-notable" companies go under the radar and quietly rise in value.

This year so far, is a perfect example, according to Adam Shell, when auto parts makers were up more than 25 percent, the gaming industry and casinos have returns of more than 50 percent, and homebuilding stocks jumped 30 percent. In addition, the hotel and resort industry has booked gains 25 percent, stocks of health care equipments increased by 25 percent, and airlines have also experienced growth, with the help of lower fuel costs. Shell suggested that these gains from different sectors are viewed as healthy, as it implies that the investors are now investing in companies that are not largely in the technology sector, which has been the market leader so far in 2017.

Relation to Text:

The article that I had chosen above relates to several concepts discussed in Chapter 8 from Bodie, Kane, and Marcus' Finance - Essentials of Investment. Chapter 8: Efficient Market Hypothesis, describes that stock prices should follow the notion of random walk, that is, changes in stock prices (fluctuations) should be random and unpredictable. Intelligent investors should equip themselves with relevant and up-to-date information on which to buy or sell stocks before the rest of the market becomes aware of that same set of information. This applies to investors who are vigorously investing largely in technology companies in the technology sector; they should also diversify their investments into other sectors (based on relevant and helpful information) to reduce risks. Technical analysis and the momentum effect were likely the dominant cause of investment concentrations from investors. Technical analysis, the search on recurrent and predictable patterns in stock prices and on proxies for buy and sell pressure in the market, allows investors to strengthen their investment positions on a certain company in a certain stock market sector; the investment trend is further bolstered due to the momentum effect, which states that the tendency of poorly performing and well-performing stocks in one period to continue that abnormal performance in the following periods.

Active and passive management and risk-return trade-off are part of the topics described in chapter 1 from the text and these concepts also relate to the article that I had selected. Because passive management illustrates the buying and holding of a diversified portfolio without attempting to identify mispriced securities, the investors described in the article do not fit into this description as much as active management strategy. In active management, investors would attempt to identify mispriced securities or to forecast broad market trends, that is, for example, "increasing one's commitment to stocks when one is bullish on the stock market" (11). This attributes more appropriately to the investors whose portfolio are not considered as diverse and has large commitments on stocks of technology companies in the technology sector because their stocks have been ever rising. While these investors have large commitments on these specific technology companies, they must have also taken the risk-return trade-off factor into account with their investment, as the risk-return trade-off factor portrays the idea that assets with higher expected returns entails greater risks.

Reflection

I agree with the author's view on diversifying investment portfolios and not have all or even most of the eggs in one basket, that is, in the technology sector. Though I understand the reason and causes of this investment trend: due to the fact that the world is more and more technologically advanced and incorporated and that technology companies such as Tesla, Facebook, Snapchat, Apple, Microsoft, etc are receiving most of the media coverages, it is natural that the investment trend would be more directed towards these technology companies. However, in order to receive greater returns and minimizing potential risks, an intelligent investor would have to diversify his or her investment portfolios and invest in other sectors on the stock market, as growth in other sectors are apparent as described in the article.

The title of the article caught my eye when I was browsing potential news articles on USA Today to write about, and as I was reading the article, concepts that I have retained from reading the textbook constantly appeared in my mind. Although the article did not specifically cover news of a particular company and its future projections based on some cause and effects, the article provided real and genuine advice on stock investment while covering market trends of specific sectors.

Reference (Article):

<https://www.usatoday.com/story/money/markets/2017/07/12/spread-wealth-its-not-just-popular-stocks-go-up/469534001/> (Links to an external site.)Links to an external site. (July 12, 2017).



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