



Investment Club

11/17

MKT Update
GM Pitch
Intro to Options

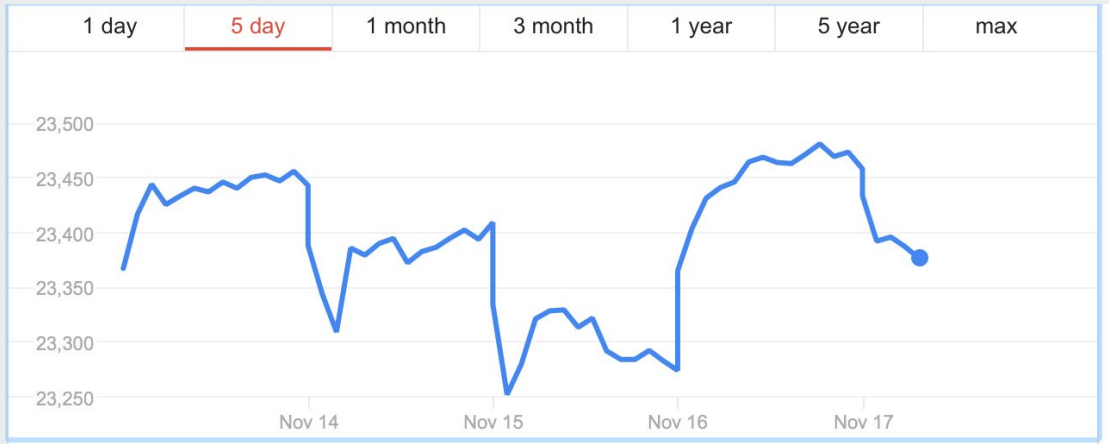


Market Update

James Lind
Colin Evanko



Closed at 2,581



Closed at 23,372

Housing

- Highest level in a year
- Single family homes have risen 13.7% since september
- Residential building permits rose 5.9%
- Expected 4.4% increase
- 2008 fears, housing market crash



Tax Overhaul

- Reduce corporate tax
- Lowest since 1939
- Removes personal exemptions and reductions
- Reduces federal revenue by 1.4 trillion dollars over next decade
- Republicans believe it will spur economic growth





Powell and Fed:

- Economists are in agreement that there will be little change in monetary policy.
- Consensus is that there will be a less aggressive approach on financial regulation, which has been a staple of the Trump administration thus far.
- Fed to raise short-term interest rates next month and lift them three times next year and twice in 2019.



General Electric:

- GE stock is down more than 42 percent year-to-date.
- Along with the dividend cut, General Electric announced this week that it will be completely restructuring its business to focus on its aviation, power, and healthcare segments.
- There have been talks about removing GE as a member as the Dow Jones.
 - The price relationship between GE and other stocks may be important because the Dow is



Bitcoin:

- The price of bitcoin surged Friday to a record near \$8,000, erasing the sharp pullback last weekend.
- The digital currency has risen more than 700% this year ahead of a highly anticipated launch of bitcoin futures.
- Futures are derivatives contracts that investors and companies typically use to speculate on prices or hedge risk against market swings.



GENERAL MOTORS (GM)

200 shares at \$43.50/share (\$8,700)



Company Overview

Automobile company founded in 1908 and HQ in Detroit, MI

Produces vehicles in 37 countries under twelve brands:

Chevrolet, Buick, GMC, and Cadillac (USA), Holden and HSV (AUS), Wuling, Baojun, Jie Fang (CHI), and Ravon (UZ)

Employs 215,000 people in 396 facilities on 6 continents



Important Figures

MC: \$61.9B

52-week range: \$31.92 - \$46.76

Beta: 1.6

P/E: 9.43 (industry average: 16.1)

Yield: 3.55%

Revenue in 2016 (\$166B)

10 million cars sold last year

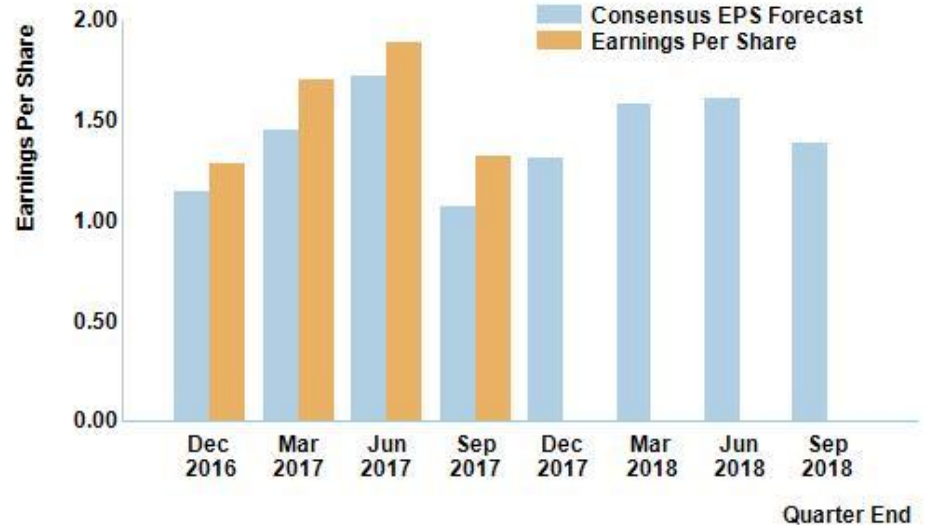
Debt to Equity: 1.54

Important Figures cont.

EPS: 6.10

(1.35 Quarter Ending Dec 2017)

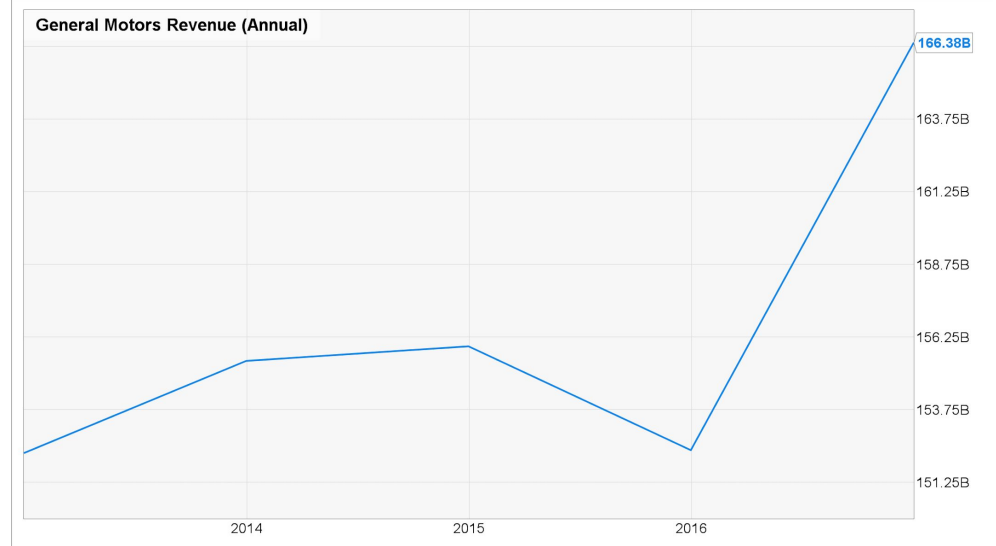
Achieved first profitable quarter in all business segments, including South America, since Q4 2014



Important Figures cont.

The record sales last year lifted GM to a record operating profit of \$12.5 billion, up 16%

Net Income is up 140% since 2015



Investor Forecasts

BoA, Deutsche, Citi, JP Morgan: BUY

Barclays: NEUTRAL

Goldman, Morgan Stanley: SELL





Why Buy?

1. Global outlook
2. Company outlook
3. Electric/Autonomous cars
4. China



Global Outlook

Over last 10 years, global car sales have increased from 53.74M to 77.31M units

“By 2020, global profits for automotive manufacturers are expected to rise by almost 50 percent. The new profits will come mainly from growth in emerging markets and, to a lesser extent, the US. Europe, Japan, and South Korea will be stagnant in terms of profit growth.” -McKinsey, 2013

Many countries, such as France, the U.K, the Netherlands, Norway, China, and India, have all said they plan to ban the sale of gas and diesel cars



Company Outlook

GM now has a “mass-producible” Level 4 self-driving vehicle

Strobe, Inc.

“GM’s autonomous vehicles will be ready for commercial deployment, without human drivers, much sooner than widely expected, and potentially years ahead of competitors” -Deutsche Bank

Well-prepared for a U.S. car market downturn (70%)



Electric Cars

“We are committed to a future electric vehicle portfolio that will be profitable” -Barra, CEO

All electric by 2026 (10/2)

2 in 2019 and 18 more by 2023

Ford announced 13, and Renault-Nissan-Mitsubishi 12, by 2022

Chevy Bolt, 230-mile, \$30,000 all-electric car hit the market long before the Tesla Model 3



Electric Cars cont.

Next generation will cost the company 30% less than current ones, due to production facility innovations (R&D - \$7.5B - \$8.1B)

Industry and global economic and environmental trends are shifting toward electric vehicles, with technology advancing quickly than expected



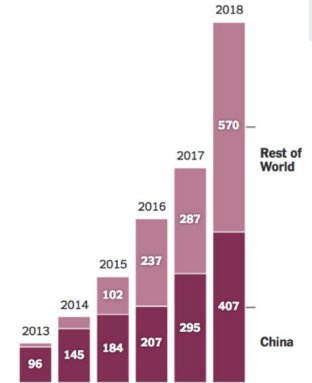
China

World's largest car producer and consumer

“In order to sell gasoline-powered cars to Chinese consumers, they must sell electric-powered cars as well” - PBSC representative

Offering subsidies up to \$9,000 to consumers on the purchase of electric car

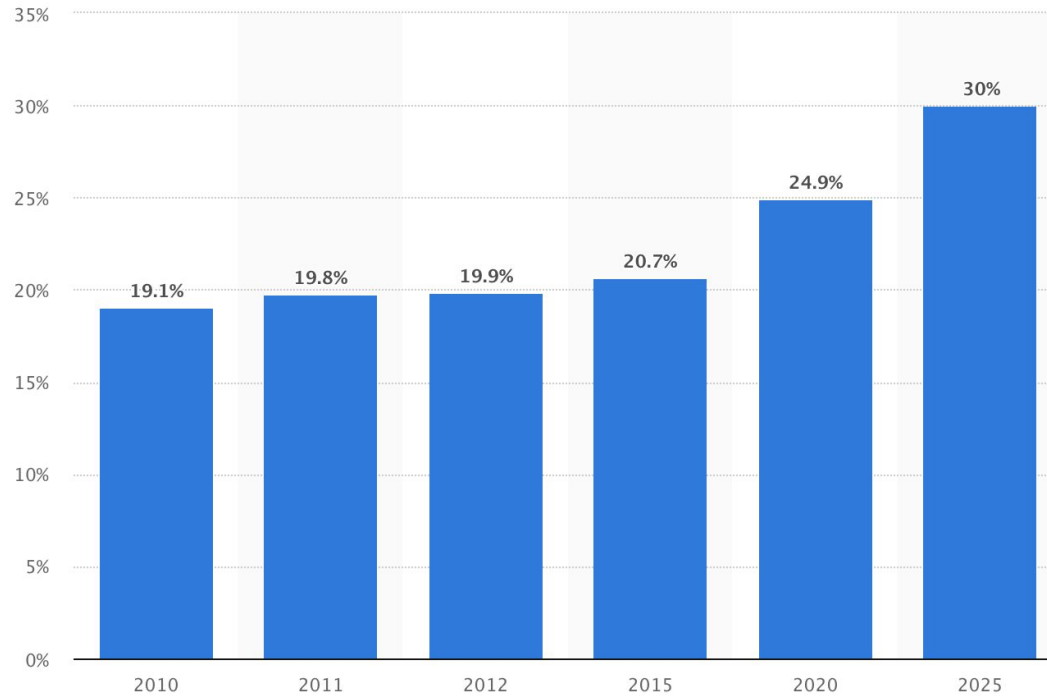
Requiring automakers to reach a certain electric quota to produce in-country without buying credits (GM far surpassed this quota in 2016)



Note: 2017 and 2018 figures are forecasts.
Source: LMC Automotive



China Global Car Market Share





GM Chinese Footprint

GM will open five new manufacturing plants in China by 2018 to support the sales of nearly 5 million vehicles annually

“Sales so far have largely met our expectations, perhaps even slightly above our expectations,” GM China chief Matt Tsien said

2nd largest car producer in China (2016)



Things to Consider

Bankruptcy in '09

U.S. car market

Competition in China

Profit dip last quarter

Car-sharing services (A 2017 McKinsey survey reveals that 67% of all U.S. respondents prefer to drive themselves over using a ride-hailing app)

— An Introduction to Options

Jeff Sikorsky

What is an option?

- An option is a contract
- It gives the owner the right, but not the requirement, to buy or sell shares of a stock at an agreed upon price (strike price), by an agreed upon day (expiration)

Two Types

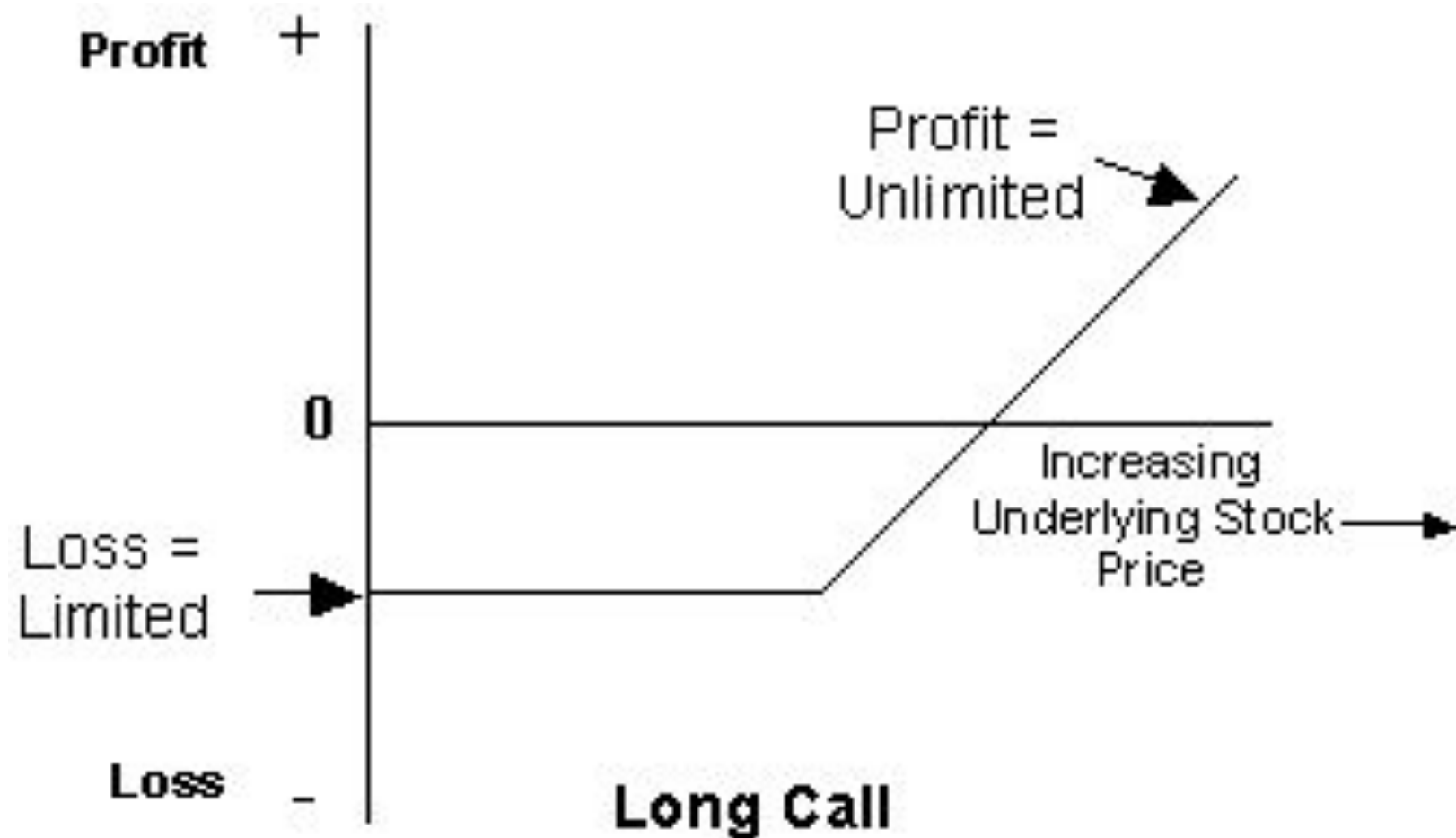
- Call Option
- Put Option

Call Option

- Call option gives the owner the right (but not the obligation) to buy shares of a company
- If you purchase one call option
 - you now have the right to buy 100 shares of the companies stock before the expiration date, at the agreed upon strike price
- Bullish position

Terms

- **Strike Price:** Agreed upon price which the owner of the option is able to buy/sell the stock for
- **Expiration date:** The date the option contract expires (typically Fridays)



Call Option Example

- We think the price of Fitbit stock is going to go up in the near future.
- We could buy shares of Fitbit stock, but instead, we decide to buy a call option
- Fitbit is currently trading at \$6.00, and we think by March the price will definitely be higher
- We buy a call option with a strike price of \$6.50, and an expiration date of March 10th
- The call costs us \$80

If we were right

- Lets say stock price of Fitbit hits \$8.00 by the beginning of March
- Our option is In The Money
- Before the expiration date, we exercise our contract, and now can purchase 100 shares of Fitbit stock for 6.50
- We can immediately sell the 100 shares to the market for a profit of 1.50 a share, or \$150!
- When we subtract how much the contract cost us to buy (80), we have made \$70.

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If we were wrong

- Our contract will expire worthless
- We lose \$80

Benefits

- We didn't have to own the 100 shares, which would have cost us \$600
- We only risked losing the price of the contract (\$80) where as if we bought the stock, we would have the possibility to lose up to \$600

Options are Tradable

- You do not have to wait until the expiration date to make money on your option
- You can sell options on the market just like you would with stocks
- If it becomes more valuable since you bought it, you can sell it for a profit (buy a call, Fitbit goes up, contract will be worth more)
- If it drops in value, you can sell it for a loss and get some of your money back

Put option

- While call options give you the right to buy, Put options give you the right to sell
- Used when you believe the underlying stock price will go down in the future
- Again, you only risk the cost of the option contract

Why use options?

- You can use options for a variety of reasons
- They can amplify the effect of your money when speculating
 - If I can't afford 100 shares of the underlying security, but I can afford an option contract
 - Leverage
- They are valuable hedging tools, manages risk
 - Lets say you hold a very large position in Apple and want to protect it incase the stock drops.
 - You could buy what are called “protective puts”

Why Cont.

- Spreading
 - Use multiple options to both speculate and hedge so that you can achieve a variety of outcomes
- There are many different options strategies: Straddles, Condors, Butterflies, and others are some examples

Where to learn more

- Options boot camp from [OptionsInsider.com](https://www.optionsinsider.com)*
- Investopedia
- Paper trading to practice
- Econ 324 options and futures
- Learn about the Greeks, they are necessary tools for valuing options, tons of stuff about them online*