

**THE WHITMAN INVESTMENT COMPANY**

Date: 10/31/18

**12:03 Call meeting to order**

Go over agenda

Motion to approve agenda ‐ passes

Motion to approve last week’s minutes ‐ passes

**12:05 Vote in Members**

Nishaant Limaye, Sam Geschickter, Gavin Backham, Sihan Chen, Midori Kwan, Claire Maurer, Jun Cai, Marty Agrimis

Motion passes (13I : 0O : 0S)

**12:15 Portfolio and Market Update**

Tech is more volatile than the market as a whole. The FAANG index is more volatile than Tech as a whole. Our portfolio rebounded a bit this week, but we are seeing a similar divergence between the core and active portfolios.

**12:20 Educational Presentation: Risk Management (Reily, Alex)**

What is Risk Management?

In Finance, risk management is the practice of identifying potential risks before they happen and taking actions that will limit exposure to these risks

Risk cannot be separated from performance, in order for their to be any type of return there has to be risk involved

Risk Management is all about limiting the downside risk without drastically reducing potential upside gain

Different Types of Risk Explained

Systematic Risk:

Systematic risk is the risk inherent to the entire market

The systematic risk of a portfolio is determined by beta (a portfolio with a beta > 1 has more systematic risk)

Incorporates interest rate changes, inflation, recessions and wars

Can be mitigated through hedging

Idiosyncratic Risk: risk unique to a specific company or industry

Risk can be managed and reduced through proper portfolio management

Asset Allocation, Rebalancing, Risk vs. Performance, Passive vs. Active, Conservative vs. Aggressive, Time Horizon, Market Outlook, Correlation, Hedging

Hedging- Reducing Systematic

Hedging is a strategy where a position is undertook that offsets the exposure of a related security

Similar to an insurance policy, Reduces risk, but also reduces gains

Types of Hedging

Derivatives: Options, futures, swaps, and forward contracts

Areas of Hedging: commodities, securities, currencies, interest rates, even the weather!

Asset Allocation

Risk-Measuring Ratios

Beta = Covariance (Return of Portfolio, Return of Market) / Variance (Return of the Market): Measures correlation of portfolio in relation to a specific market index

Standard Deviation: Measures the volatility of the portfolio based on expected returns

Capital Asset Pricing Model (CAPM): Expected Return = Risk Free Rate + Beta (Return on the Market - Risk Free Rate)

Describes relationship between risk and expected return of a security

Sharpe Ratio = (Expected Portfolio Return - Risk Free Rate) / Portfolio Standard Deviation

Determines whether excess returns of a portfolio above the risk free rate are gained by taking additional risk or not

Treynor Ratio = (Expected Portfolio Return - Risk Free Rate) / Portfolio Beta

Similar to Sharpe Ratio but uses Beta to calculate risk-adjusted returns

A Look at WIC Portfolio

Correlation to the S&P:

Beta: 0.885

R Squared: 0.69

Rate of Return:

Average Rate of Return: 7.63%

Standard Deviation: 6.53%

WIC’s level of Risk:

Sharpe Ratio: 0.689

Treynor Ratio: 0.051

CAPM: 10.76%

Average Yearly Rate of Return: 7.63%

Some ideas on how to improve WIC’s Risk-Adjusted Returns

What we are not allowed to do: Hedging, Commodities, Foreign securities or emerging markets, Futures

What we are allowed to do: Concentrating our portfolio, Long inverse ETFs, Change allocations

Which risks can we identify in the market today?

Emerging Markets, High-Yield Corporate Bond Market Trade War, End of the Business Cycle?, Unwinding of QE, Rising Interest Rates

How can we reduce our risk exposure?

* Emerging Markets: Purchase Short MSCI Emerging Markets ProShares
* High Yield Corporate Bonds: Purchase ProShares Short High Yield, Treasury Bonds
* Trade War: Buy Mid-Small Cap companies that only operate in the U.S. and don’t rely on imports
* End of the Business Cycle: Purchase Treasuries, High-Dividend Value Companies (DJIA Companies)
* Rising Interest Rates: Purchase ProShares Short 20+ Year Treasury

Interested in Risk Management as a Career in Finance?

FRM (Certified Financial Risk Manager Program)

Offered by GARP (The Global Association of Risk Professionals)

Average of two years to complete

Nassim Nicholas Taleb: Black Swan, Antifragile

**12:50 Motion to adjourn meeting**

Motion passes