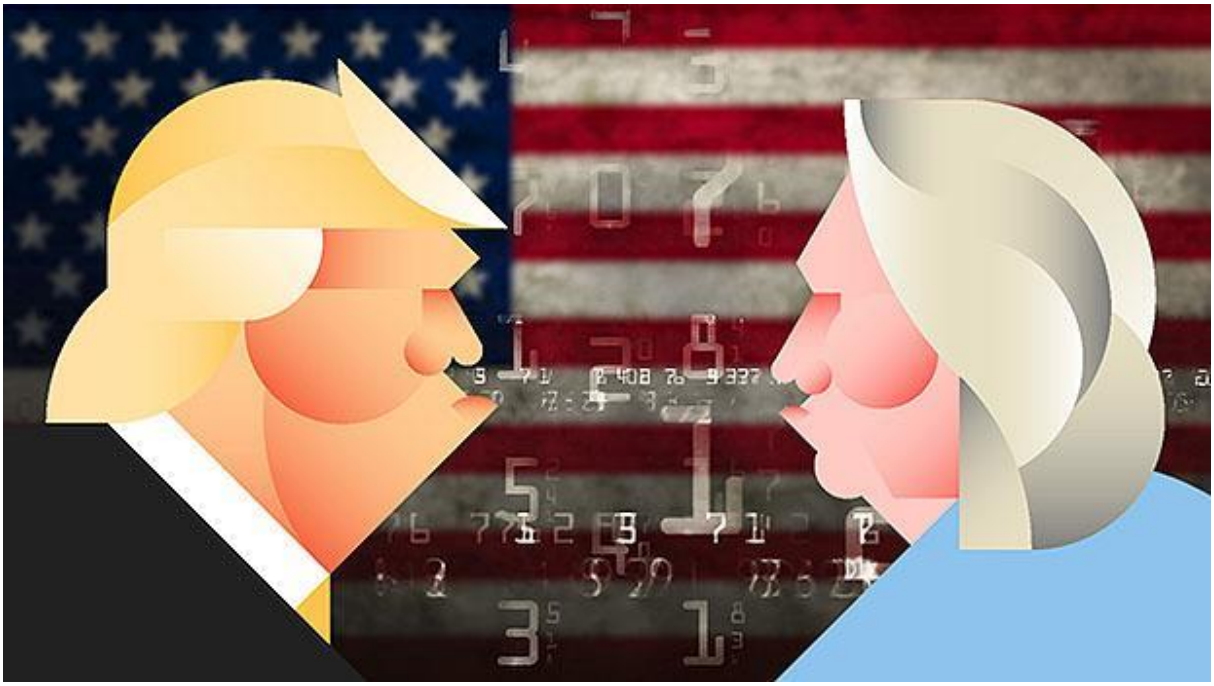
Building a US Election Portfolio

- Based on the Expected Financial Impact of the Election



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Introduction

At this point, when the term paper is due, it is well known to most people that the republican candidate Donald Trump was the one to be elected President of the United States November 8th. To make our paper more realistic, we will now go back in time and imagine that we are situated in the last few weeks before the election.

So far this election has been characterized by many special and curious features. One was the massive challenges Hillary Clinton met while opposing the more socialist candidate Bernie Sanders during the primary election. Furthermore, the election has undoubtedly been characterized by the republican presidential candidate Donald Trump. He is an extremely eccentric figure that has kept challenging the status quo throughout his campaign, and to whom no one has an indifferent opinion. In general, people either gives him their full support, or they find his views and statements appalling.

Throughout the election year it has become clear that the opinions of the two presidential candidates, Hillary Clinton and Donald Trump, are very different. Something that builds up a foundation for two very different political paths depending on the result of the election. As an economy is an essential part of a country, and very much affected by government laws, the election outcome will most likely result in significant changes in the US economy. We want to use this situation – the US election – to examine which markets and industries that are most likely to experience the biggest changes depending on the outcome. On this basis, we will analyze and elaborate a sustainable proposition for how it is possible to make good investments on the presidential election. Imagining that we are in a situation before the election, making our analysis as if we do not know the outcome, we will put together a portfolio that has a great potential for profit, given both electoral outcomes.

In other words, we will attempt to make a model for profit gaining before the election on November 8th. We will base our model on public statements from professional financial analysts, changes in election polls, stock values, and the currency exchange rate between the US Dollar and the Mexican Peso prior to the election. Our goal is to see if changes in the expected result of the election had consistent effects on the mentioned securities. Basing us on this we intend to predict how the different securities would be affected by the two different electoral outcomes, and then use our findings to create a portfolio with a high potential for profit, given both the accuracy and weaknesses of our analysis.

Economy and Election Data

Economy

The United States economy is the largest national economy in the world measured by GDP, with approximately 18,6[1] trillion US dollars (IMF, 2016). According to the World Bank Group the total value of stocks traded in the US annually is roughly 41,4[2] trillion US dollars (World Bank Group, 2016). In other words, we are going to make our portfolio in a very large financial environment.

Election Data

To be able to create a well-functioning model that accurately predicts different financial aspects, it is essential to include and analyze the predictions for the electoral outcome in a good and constructive manner. The outcome of the election will impact the economy, and we will later discuss which sectors and industries that will be impacted by the two outcomes. To be able to include and analyze the electoral outcome in a constructive manner, it is imperative to be able to extract as accurate data as possible on the election polls.

We are therefore going to base our model on the data that RealClearPolitics collects, an average of 33 different polling data aggregators, which is used by many of the largest and well respected newspapers such as Financial Times and Bloomberg.com.

RealClearPolitics is a trusted polling aggregator that was founded in 2000 by the former trader on the Chicago Board Option Exchange John McIntyre and the former advertising agency account executive Tom Bevan (RCP, 2016).

What we Expect to Happen

Based on public statements from professional analysts and our own collected, aggregate data – available in the attached excel file – we have chosen ten assets that will make up our US Election Portfolio[3]. We have looked for assets where we expect significant market movement due to the election, and we have tried to spread the risk to maximize the probability of profit on either of the two outcomes of the US election.

First, we will go through our chosen assets. For each and of them we will describe the corporation, explain why we have chosen exactly this asset, and elaborate our reasoning for a market movement related to this specific asset. In our attempt to reduce risk, we have tried to balance our portfolio by diversifying into several different sectors. We have two stocks in the medical sector, three stocks related to renewables, one stock related to more traditional energy

[1] 18,561,930 million US $
[2] 41,398,501 million US $
[3] Overview in the appendix

production, two companies in the infrastructure sector, and one stock in pharmaceuticals. We also expected there to be movement in foreign exchange, and have chosen to look at the Dollar-Peso relation, as this was predicted to be the foreign exchange relation with the highest potential volatility.

After going through our assets, we will explain our investment strategy. To do this in a satisfying manner we will first try to characterize our expectations for each asset as either:

1. An asset with **high** volatility
2. An asset with **some** volatility

We will be basing our characterization on public statements from professional analysts, combined with our own analysis[4] of the aggregated data, and the elections statements from each candidate.

Hospital Operators and Medicaid Providers

Analysts from both Strategas Research Partners, LPL Financial Holdings Inc. and the Credit Suisse Group AG claimed before the election that hospital operators and medical providers – such as HCA Holdings Inc. and Universal Health Services Inc. – would benefit from a Clinton win. They stated that these benefits would be due to her continued subsidization of the Affordable Care Act, Obamacare (Kuntz, 2016). This is not the case if Trump wins. He has made it clear that his intention is to repeal Obamacare and make healthcare a market free of public influence through free market-reforms (Trump, 2016). This means less subsidization and lower profit margins. The effect from a Trump win on these corporations will most likely be negative. We will in our US Election Portfolio include two corporations from the healthcare sector, HCA Holdings, Inc. and UHS Inc.

HCA Holdings, Inc. (HCA)

HCA Inc. is a corporation that provides health care through several hospitals and other facilities throughout the US. It is for-profit, and the stock is traded daily in high volumes. Changes in political health care policies in the US are guaranteed to have a significant impact on the stock price, and the potential outcomes of the election create room for speculation. Experts claim that a Clinton win will have a positive impact on the stock price, while a Trump win most likely will have the opposite effect.

Looking at figure 1, we see that increased support for Clinton on the polls (blue) have a positive effect on the stock´s value (grey). As the election draws closer the two graphs correlate more, and the correlation is particularly high in the last month before the election day. From October 18th to November 4th, Clinton drops approximately five percentage points on the polls. During the same period, the stock dropped from 82 to 74 dollars per share. This fall equals to almost ten percent. We see a similar, but positive, shift in the first two weeks of October. It is reasonable to expect that the actual election result will have a bigger impact

[4] Our analysis is based on the correlation of the poll data collected from RCP and the stock price collected from Yahoo.finance.com. Attached excel document.

than the polls, and we therefore choose to classify HCA as an asset with a high expected volatility.

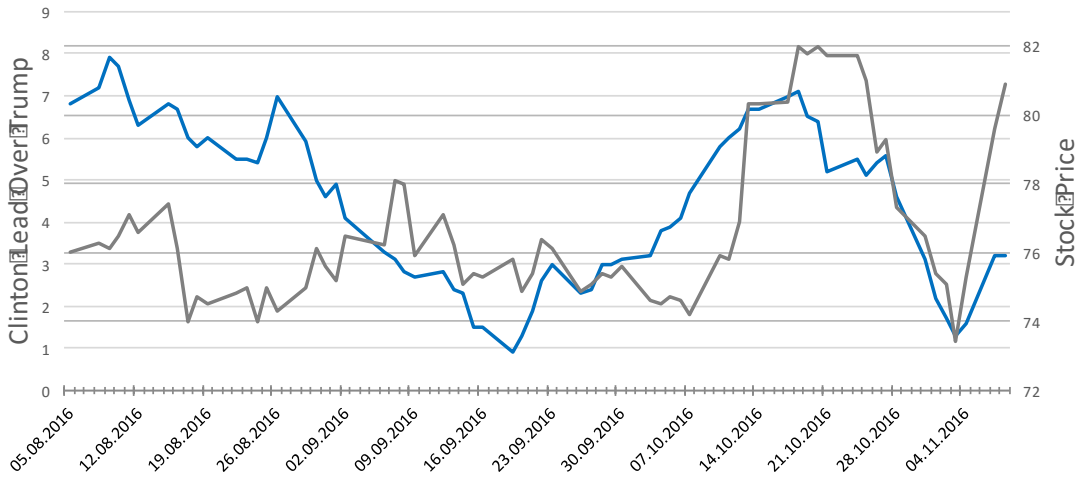


Figure 1: ***HCA Holdings, Inc.*** *Shows Clinton lead over Trump and the stock price, three months before the election*

Universal Health Services, Inc. (UHS)

Universal Health Services is listed on the New York Stock Exchange, and is a large and respected hospital management company in the United States. It has roughly 70 000 employees, and provide services in its 225 facilities all over the country (UHS, 2016). This company will, like HCA Inc., most likely be affected by the election outcome. Underneath, in figure 2, the blue graph represent the Clinton lead over Trump, while the grey graph represents the stock price of UHS. From this graph, we can see that there is a strong correlation between the stock price and how the two candidates do it on the polls. We observe that the last month, after October 7th, the stock price follows the polls almost perfectly. Consequently, we chose to characterize the UHS stock as an asset with a high expected volatility.

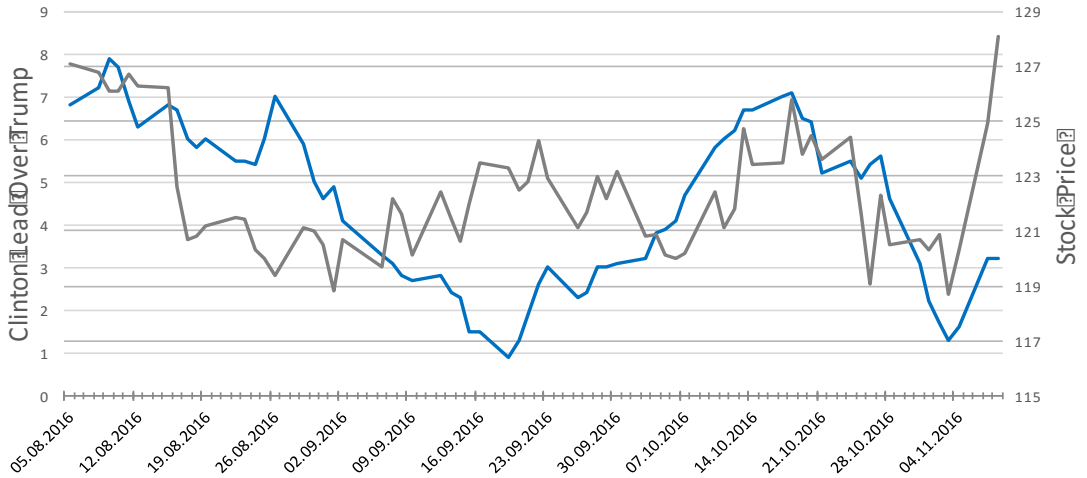


Figure 2: ***Universal Health Services, Inc.*** *Shows the Clinton lead over Trump and the stock price three months before the election*

Alternative Energy Producers

During the campaign, Hillary Clinton has stated on her webpage that on her first day in office she will put forward a ten-year goal of generating enough renewable energy to power every home in the United States. She has also promised to reduce the US oil consumption by a third, by expanding the renewables, creating cleaner fuels and offering more efficient means of transportation (Hillary, 2016). These plans to reduce the fossil fuel industry will most likely boost the alternative energy producers, and Morgan Stanley states at Bloomberg.com that they believe companies like Sunrun Inc., First Solar Inc. and NextEra Energy Inc. will face a brighter future if Clinton wins (Kuntz, 2016).

Given the scenario in which Trump wins, the outcome for these companies is likely to be opposite. Donald Trump intends to remove limitations on fossil energy sources, and plans to increase the output of shale oil with the main goal being to reduce energy prices, create jobs and to reduce the US´ dependence on energy import (Trump, 2016). The price drop and increased profitability for fossil sources will have a negative impact on renewable energy companies as it will decrease profitability and their ability to compete, thus causing their stocks to be devalued. Therefore, it is reasonable to expect volatility in the value of renewable energy companies no matter who wins the election.

Sunrun, Inc. (RUN)

Sunrun Inc. is a company that delivers solar energy to residences in the US private market by installing and maintaining solar panels on the property. Sunrun owns the panels, and sells the produced energy to the residence (Sunrun, 2016). A Clinton win would, due to her plan to reduce the fossil energy production, result in an increase in energy prices. This would in turn make Sunrun a relatively more cost-efficient choice for consumers and most likely cause an increase in the stock price.

Similarly to the previous assets, Sunrun has a positive correlation with Clinton's performance on the polls, as seen in figure 3. Furthermore, the correlation gets stronger as the election day draws closer, which further strengthens our theory that the election has an impact on the asset. From October 21th to November 5th, Clinton dropped approximately 2,5 percentage points on the polls, reducing her lead from 7 to 2 points. In the same period the Sunrun stock dropped from 6,7 to 4,7 dollars per share. This equals to a fall of almost 30 percent. It seems like the election has a significant effect on the asset, and that it will result in high volatility.

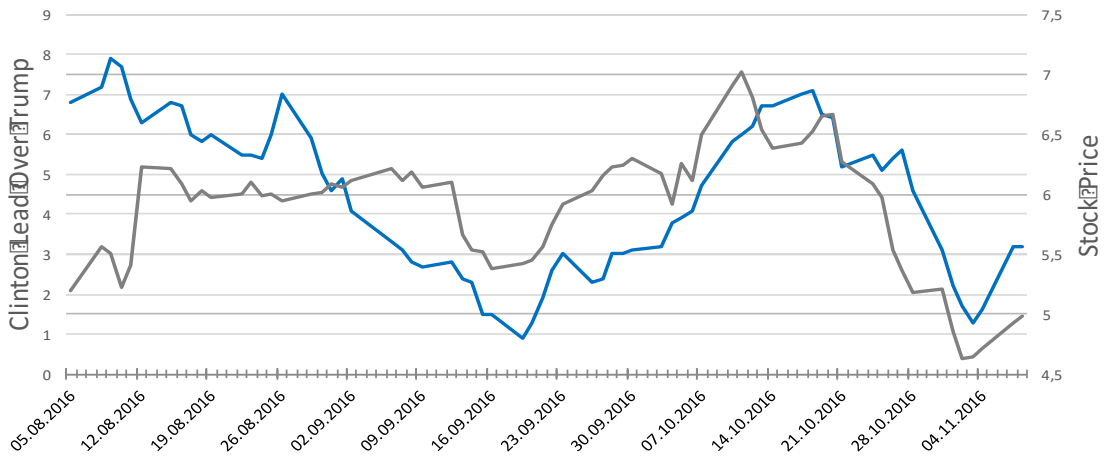


Figure 3: ***Sunrun, Inc.*** *Shows the Clinton lead over Trump and the stock price three months before the election*

First Solar, Inc. (FSLR)

First Solar Inc. is a company that creates photovoltaic solar energy solutions, which basically means that they use light to make electricity, making use of solar panels. The company is listed at Nasdaq, and states that is has 45 000 employees in its global supply chain (First Solar, 2016).

In the same way as Sunrun, a Clinton win would most likely have a positive effect on First Solar. In our data analysis, we have found that there is a strong correlation between good election polls for Clinton and the stock price of First Solar, showed in figure 4 below.

This can be illustrated by the effects on the polls when the audio recordings, revealing Trump's' controversial comments on the actress Arianne Zucker, came out in the beginning of October. Some of his comments was: "And when you're a star they let you do it. You can do anything. Grab them by the pussy. You can do anything." (Lavender, 2016). After this, as observed in figure 4, Clinton's popularity rose. And since we assume that First Solar is correlated with the election polls, this company's stock price rose as well.

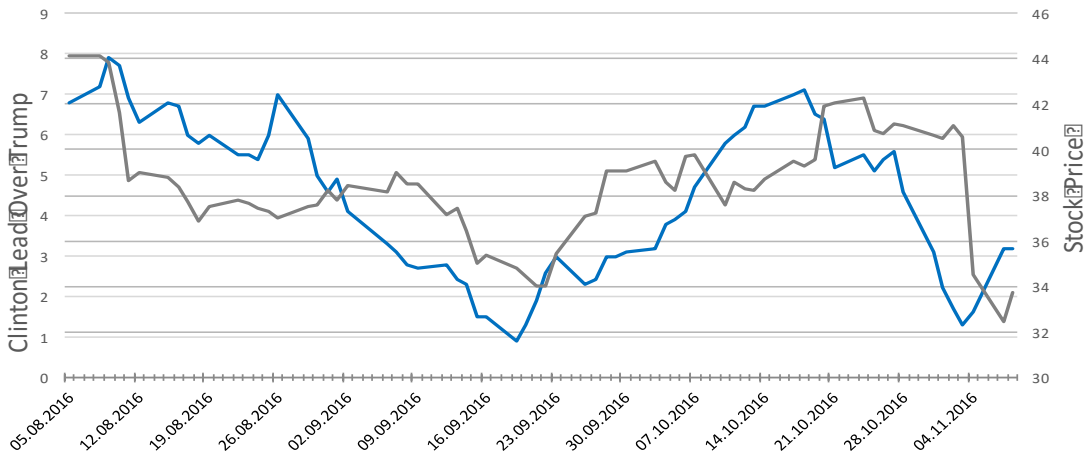


Figure 4: ***First Solar, Inc.*** *Shows the Clinton lead over Trump and the stock price three months before the election*

NextEra Energy Inc. (NEE)
NextEra Energy Inc. is a leading corporation in renewable energy in the US, with annual revenues exceeding 17 billion dollars in 2015, and more than 14 000 employees. Its stock is traded at the New York Stock Exchange, and the daily volume exchanged normally exceeds 1,5 million shares.

As we see from figure 5, NEE seems to correlate positively with Clintons lead on the election polls. In the period from early September to early October it seems like the stock correlates negatively with the polls, but further investigation shows that the correlation might be stronger, but somewhat delayed. Similarly to the other renewables, we expect high volatility in the NEE stock as a result of the election due to the planned policies of both Clinton and Trump.

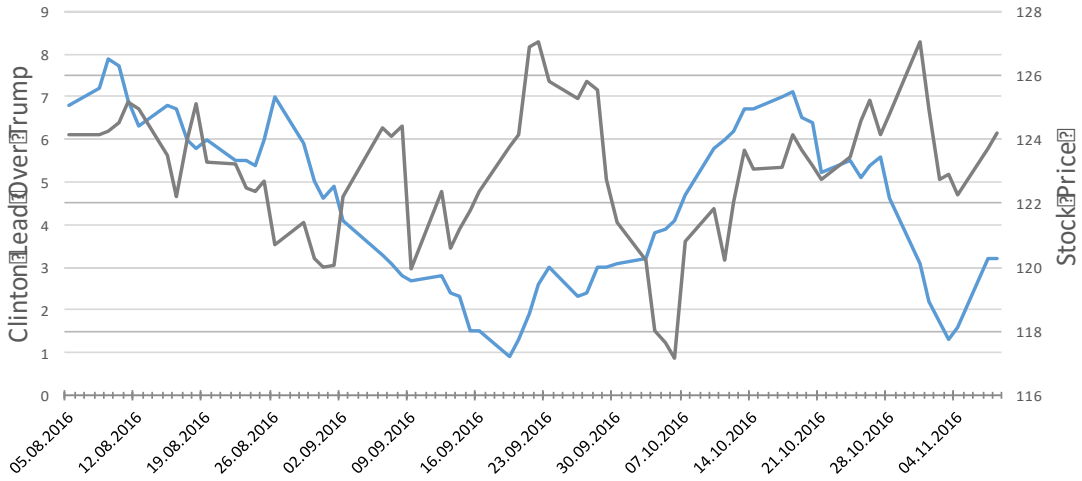


Figure 5: ***NextEra Energy, Inc.*** *Shows the Clinton lead over Trump and the stock price three months before the election*

Traditional Energy Producer

So far we have seen that the renewable stocks most likely will experience a higher valuation if the outcome of the election is a Clinton win. There is another side to this, which is the fact that Trump has a very different approach and opinion on the matter of climate change than Clinton. Firstly, he does not accept the scientific evidence that climate change is real, and secondly, he wants to dismantle the Paris Agreement (Lavender, 2016). In other words, Trump is taking it further than not committing himself to the same promises as Clinton, he is proposing actions in the opposite direction. This makes it likely that all three renewable stocks that we have looked at will expect a high volatility in the opposite direction, if the election outcome will be a Trump victory.

NRG Energy, Inc. (NRG)
Since Trump is negative to renewables we will also include NRG Energy in our portfolio. NRG Energy is a very large energy company, mostly based on coal. This means that it will most likely benefit if Trump wins the election. Morgan Stanley expect NRG to benefit under a Republican White House, because of less regulations and weaker growth of alternative energy production (Kuntz, 2016).

In figure 6, we can see that NRG Energy to some extent correlates negatively with Clinton's lead over Trump on the polls. The first month we can see all the small pikes were Clinton takes a lead, results in small spikes in the stock price of NRG. And during the last month, for example October 18th, when the poll started to go down for Clinton due to the emerge of her email problems (LA Times, 2016), we observe a high increase in the stock price. When it flattens out the next days, the stock price once again fall. Since we find this stock less correlated than the previous ones, we characterize this asset as to have a low volatility related to the presidential election.

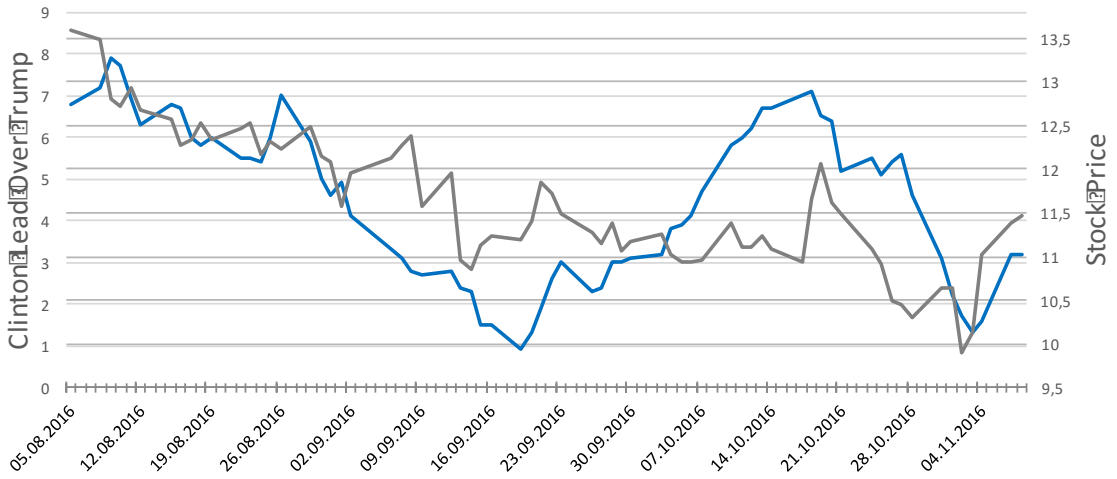


*Figure 6: **NRG Energy, Inc.** Shows the Clinton lead over Trump and the stock price three months before the election*

Infrastructure

During the election, Trump has promised to drastically increase fiscal spending to boost the US economy. He will do this with a combination of increasing infrastructure investment and cutting corporate taxes (Juice, L. & Chatterjee, S., 2016). This means that companies that construct and maintain infrastructure, such as Caterpillar Inc. and Ingersoll-Rand Corp, would face a brighter future under a Trump presidency. Clinton has also shown an interest in increasing public spending on infrastructure, but not to the same extent as Trump. Taking this into consideration, the infrastructure assets will most likely experience a positive change on either election outcome, but to a smaller extent if Clinton wins.

Caterpillar Inc. (CAT)

Caterpillar Inc. is a company that is most commonly known for its dealings in the construction industries. Most people have probably seen one of their big, yellow diggers with the three letters “CAT” written on its side. Furthermore, a significant amount of the company's revenues come from energy and transportation industries (Caterpillar, 2016). According to a Bloomberg article the transportation sector would benefit most from a Trump win (Kuntz, 2016). Still, the confidence in the economy as a whole is greater for a Clinton win, which might explain why the stock correlates somewhat positively with her lead on the polls, as seen in figure 7. Even though Trump has the biggest plans for infrastructure development. Both election outcomes are most likely to result in an increase in stock price for the company.

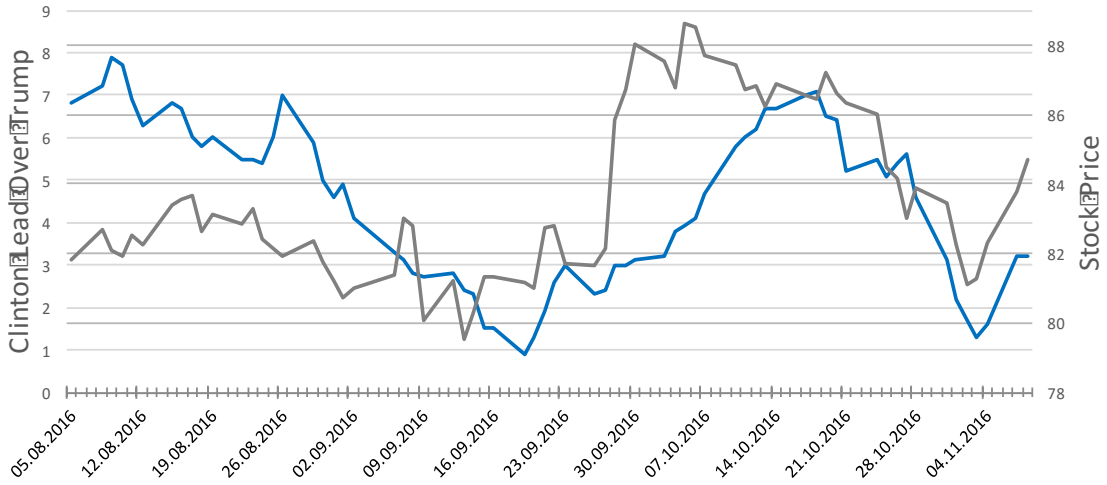


*Figure 7: **Caterpillar Inc.** Shows the Clinton lead over Trump and the stock price three months before the election*

Ingersoll-Rand Inc. (IR)

Ingersoll-Rand is another company that would benefit from more investment in infrastructure. Increased investment in infrastructure would be beneficial for their production of tools, but more importantly for their climate control systems used within transportation. Expanding transportation facilities such as railways, airports and docks would increase travel, and thus the use of climate control on transportation. This would in turn increase the company's revenues. Yet as we see from figure 8, there is no clear correlation between the polls and the stock price. One reason for this might be that both candidates intends to increase spending on infrastructure. Another reason might be that the effect that increased spending on infrastructure has on IR revenues is too indirect and too difficult to substantiate. Therefore, we do not expect high levels of volatility in this stock. Still, some volatility because of the election would be reasonable to expect as the company will benefit from the election of either candidate.

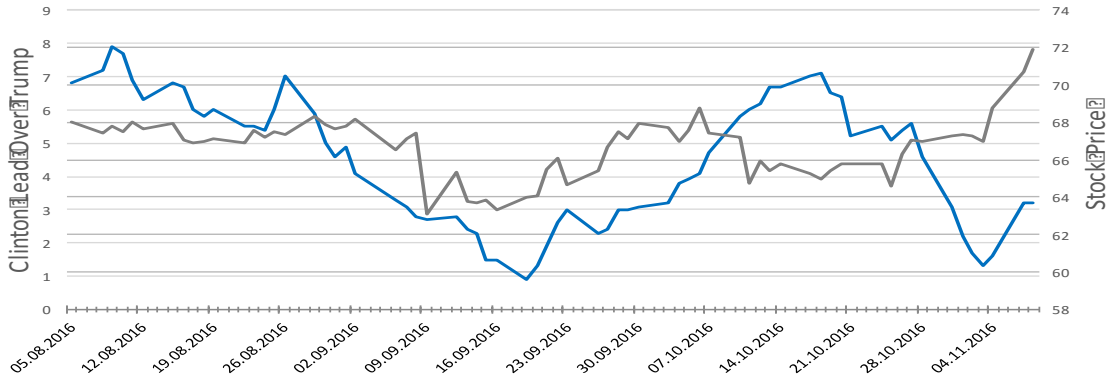


Figure 8: ***Ingersoll-Rand, Inc.*** *Shows the Clinton lead over Trump and the stock price three months before the election*

Pharmaceutical

Another industry that could be strongly affected by the US election is the pharmaceutical industry. Hillary Clinton has made it clear that she wants more restrictions in the industry, specially related to reducing prices. This would result in an industry-wide profit reduction, which in turn would affect the stock prices in the sector.

Nova Nordisk A/S (NVO)

One of these companies is the Danish pharmaceutical producer Nova Nordisk. This is a company which specializes in insulin production and diabetes research on a global scale (Novo Nordisk, 2016). Its shares are traded on the New York Stock Exchange, at an average rate of 4 million shares per day.

A Clinton win would mean worsening the conditions in the significantly large US consumer market for insulin. The negative correlation seen in figure 9 below confirms this. The main diversion is found at the end of October, but the stock devaluation was in this case the result of an external factor, the initialization of a share repurchase program. Therefore, it is reasonable to believe that a Clinton win would result in a fall in the price on NVO stocks. Trump on the other hand has shown little interest in the industry, and we will therefore not expect a similarly positive development if he wins the election.

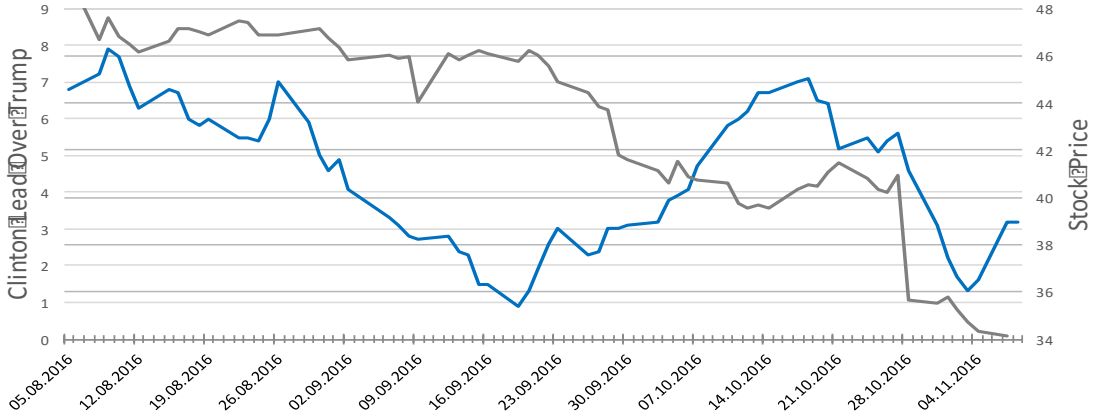


Figure 9: ***Novo Nordisk A/S.*** *Shows the Clinton lead over Trump and the stock price three months before the election*

Currencies

USD/MXN

Finally, we will look at our last asset, the US Dollar (USD) and the Mexican Peso (MXN). During the whole election, Trump has had a hostile attitude towards Mexico, this including a tougher line against immigrants and creating a wall between the two countries. We want to make use of this strict approach towards Mexico, basing us on the exchange relationship between the two nations currencies.

As seen in figure 10, the relationship between the election polls and the USD/MXN seems to be very correlated. Every time Clinton increases her lead over Trump in the polls, the Mexican Peso strengthen related to the US Dollar. And every time it weakens it has the opposite effect.

In consequence, we characterize the relationship to have a high volatility related to the presidential election. However, only if Trump wins. Margaret Yang, CMC Markets analyst in Singapore, says to Bloomberg in an interview, that "the market has already priced in a Clinton victory" (Kuntz, 2016). Which indicated that any gain from a Clinton win will be limited.

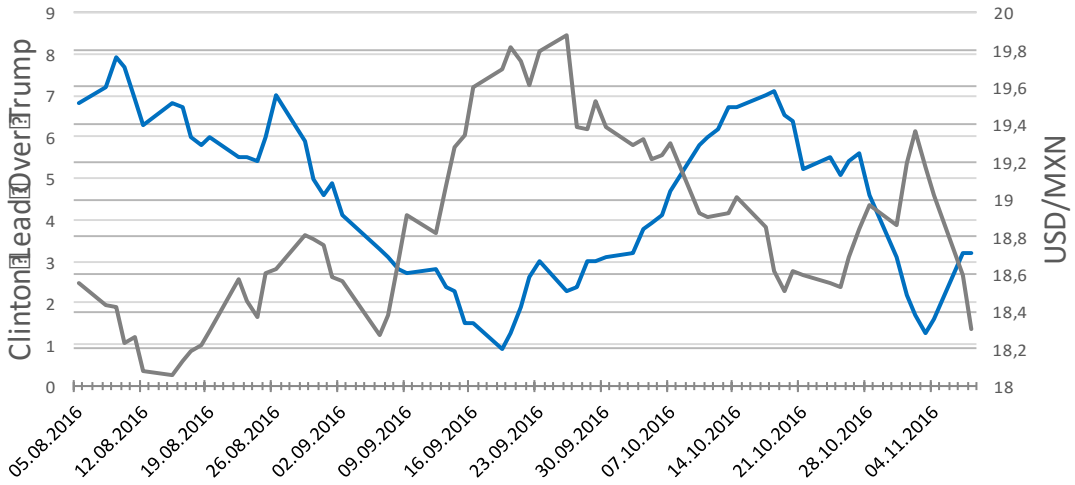


*Figure 10: **US Dollar Mexican Peso.** Shows the Clinton lead over Trump and the USD/MXN relationship three months before the election*

To Sum up the Effects

So far we have looked at the correlations of the different stock prices on our assets to the candidates' poll numbers, and characterized them as assets with high or low volatility. In our analysis, we have found that if Clinton wins, the assets in the medical sector HCA and UHS, most likely will rise due to the continued subsidizing of the Affordable Care Act. Furthermore, we have seen that the renewables RUN, FSLR, NEE, also most likely will rise if she gets elected due to her goals of reducing the fossil fuels.

In addition, we have argued that these assets probably will be volatile in the opposite scenario, if Trump wins the election. Among other factors, these conclusions have to do with statements from Trump claiming: "If we don't repeal and replace Obamacare {Affordable Care Act} we will destroy American healthcare forever. It is one of the single most important reasons why we must win on November 8th" (Bullock, 2016). Regarding the renewables, the fact that Trump does not accept the scientific evidence for the climate change, and that he wants to dismantle the Paris Agreement, makes it very likely that this sector will face a tougher time. This made us include a further asset, the more traditional energy company NRG, that we assumed will experience a price rise if Trump wins, and a decline if Clinton wins.

Moreover, we have found that the assets CAT and IR most likely will benefit from either candidate, but more if Trump wins, due to more ambitious spending plans than Clinton has proposed. We also wanted to include a company that only is expected to move if Clinton wins, and chose a pharmaceutical company, that we expect will experience a decline if Clinton wins, due to more regulations.

Finally, we looked at one foreign exchange asset, the Mexican Peso to the US Dollar. Where we argued that we expect some positive movement if Clinton wins, but a lot of negative movement if Trump wins.

Sector	Asset	Estimated Increase	Estimated Decrease
Hospital Operators			
	HCA	High (Clinton)	High(Trump)
	UHS	High (Clinton)	High(Trump)
Renewables			
	RUN	Low (Clinton)	Low (Trump)
	FSLR	High (Clinton)	High(Trump)
	NEE	Low (Clinton)	Low (Trump)
Coal			
	NRG	Low (Trump)	Low (Clinton)
Infrastructure			
	CAT	Low (Trump)	-
	IR	Low (Trump)	-
Pharmaceutical			
	NVO	-	High (Clinton)
FX			
	USD/MXN	Low (Clinton)	High (Trump)

Figure 11: Summing up the effects of our assets

Betting on the Outcome

This takes us over to how we tried to make money on this election. So far we have gathered the assets that makes up our portfolio, characterized their probable price movement after the election, and now we will look at the strategy that we want to use.

Straddle Strategy

We are mainly going use a straddle strategy, that speculates on price movements. There are a few factors that has determined our choice of strategy. Firstly, the awareness that our prediction model is a simplified one with relatively little statistical calculations and backing. Secondly, the model we have made reveals a potential for high volatility in both directions during the aftermath of the election in several of the markets used in our analysis. Thirdly, the election looks to become a very close race between the two candidates, meaning betting on one candidate alone creates too much risk. And lastly, because our model predicts that markets will move differently based on who wins, it is too much risk involved in betting on the markets to move in specified directions.

Basing us on these factors we decided to use a straddle strategy. This is a strategy that creates profit opportunities independently from the direction of the market movement, as it simply speculates in large price changes and high volatility in the assets.

A large enough movement in the stock price, leads to a positive net effect. This is illustrated by figure 12:

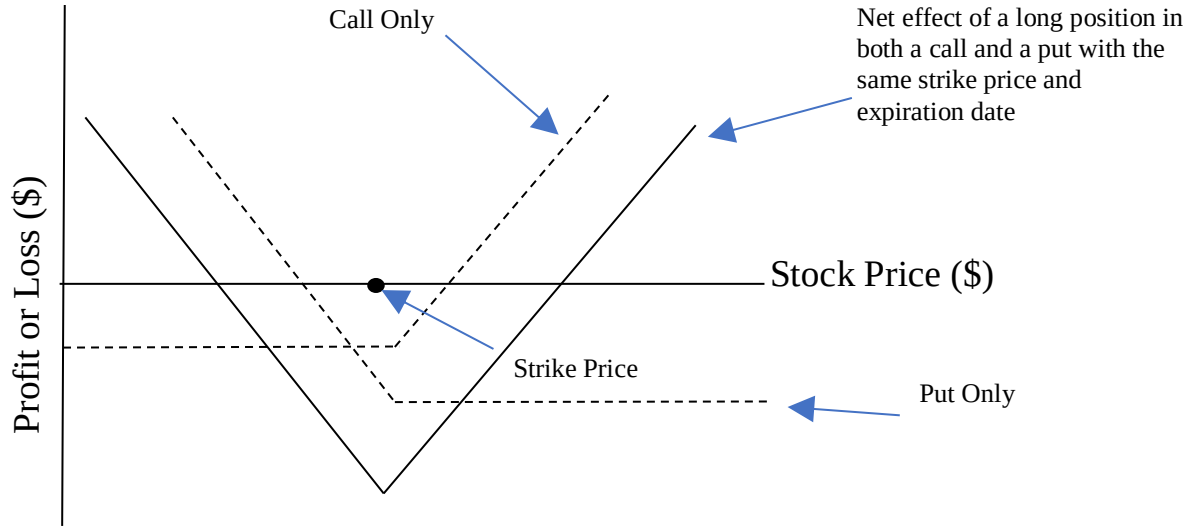


Figure 12: Straddle strategy illustrated. (Investopedia, 2016)

We are going to utilize this strategy in the assets that we have analyzed so far, and create our US election 2016 portfolio.

Collecting Data

We assume that we make all our buying transactions November 7th, the day before the election, and that our expiration date is the November 18th. This means that we use the options alternative with the shortest time span that Bloomberg offers, which span over eleven days. We collected our data from the Bloomberg Terminal at the NHH library, a professional trading service that provides trading solutions and sophisticated analysis. We use our prediction of the securities along with the stock price on the 7th to estimate which strike prices that has the most potential. Furthermore, we assume all options to be American Style, meaning they can be exercised at any point during their lifespan. Although, this is not relevant for us as we exercise our options on the expiration date November 18th. Finally, we use the ask price as a reference for all options we choose to buy, which makes the prices as accurate as possible.

Predicting the Value

In selecting an optimal strike price, we are going to use our predictions on the price movements choosing to buy both a call and a put option or to buy only one of them. In the cases where we expect movement in both directions, in line with our straddle strategy, we are going to buy both call and put options and choosing a strike price as close to the security price on the 7th as possible. In the case of our assets in the infrastructure sector, where we only expect there to be a positive price movement, we are going to buy only the call options. Reversely, we are buying the put options in the pharmaceutical sector. This is because we except there to be a decrease in this sector if Clinton wins, and no large changes if Trump wins. Finally, we are buying put options on the USD/MXN relation. All our assets are summed up in figure 13:

Sector	Asset	Estimated Increase	Estimated Decrease	Instrument
Hospital Operators				
	HCA	High (Clinton)	High(Trump)	Call&Put
	UHS	High (Clinton)	High(Trump)	Call&Put
Renewables				
	RUN	Low (Clinton)	Low (Trump)	Call&Put
	FSLR	High (Clinton)	High(Trump)	Call&Put
	NEE	Low (Clinton)	Low (Trump)	Call&Put
Coal				
	NRG	Low (Trump)	Low (Clinton)	Call&Put
Infrastructure				
	CAT	Low (Trump)	-	Call
	IR	Low (Trump)	-	Call
Pharmaceutical				
	NVO	-	High (Clinton)	Put
FX				
	USD/MXN	Low (Clinton)	High (Trump)	Put

Figure 13: Summing up our choice of instrument

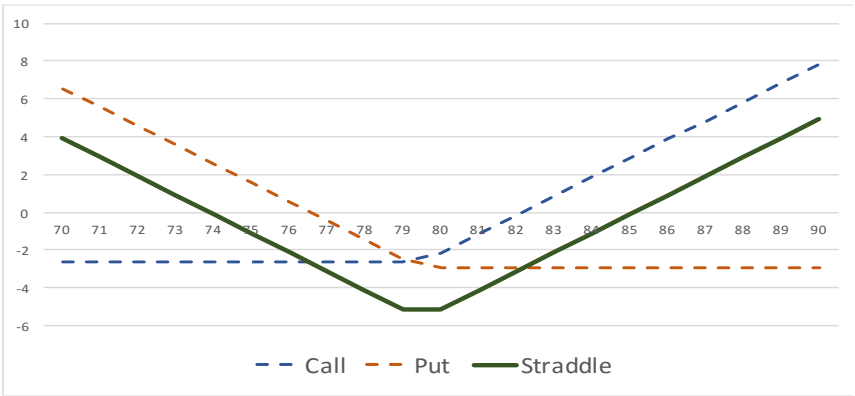
Portfolio

Based on our expectations presented in figure 13, and the available prices on the Bloomberg Terminal, we have created an option portfolio with the details shown in figure 14. We need a minimum change for profit (CFP) equal to the sum of the prices on the call and put options.

Sector	Asset	Call Price	Put Price	Strike Price	CFP[5]
Hospital Operators					
	HCA	$ 2,75	$ 2,95	$ 79,50	**$ 5,60**
	UHS	$ 3,40	$ 3,60	$ 125,00	**$ 7,00**
Renewables					
	RUN	$ 0,45	$ 0,70	$ 5,00	**$ 1,15**
	FSLR	$ 2,30	$ 1,50	$ 33,00	**$ 3,80**
	NEE	$ 1,60	$ 2,20	$ 125,00	**$ 3,80**
Coal	NRG	$ 0,75	$ 0,35	$ 11,00	**$ 1,10**
Infrastructure					
	CAT	$ 2,40	-	$ 82,50	**$ 2,40**
	IR	$ 6,20	-	$ 65,00	**$ 6,20**
Pharmaceutical	NVO	-	$ 1,15	$ 35,00	**$ 1,15**
FX	USD/MXN	-	$ 0,48	$ 18,60	**$ 0,48**

Figure 14: Our portfolio, with the necessary price change for profit

In deciding the strike price, we are basing our decisions on the expected returns. To illustrate this, we will use HCA as an example (figure 15). The stippled lines illustrate the option prices, and the green line our profits/losses on the different stock prices at the expiration date. The vertical axis represents our profits/losses, and the horizontal axis the possible stock prices at the expiration date. More detailed data for this asset is available in the excel file, along with data for the rest of our assets.



Maximum loss: -5,1
Maximum gain: 4,9

Figure 15: Shows the straddle for HCA

[5] CFP - Change for Profit

The Outcome

Our model turned out to give results that outshined any expectation. In figure 16, the different assets along with their profit margin is presented:

Asset	P_{Strike}	P_{Stock} 18.11	P_{Strike}-P_{Stock}	CFP[6]	Profit	Coverage
CA	$ 79,50	$ 72,39	$ 7,11	$ 5,60	**$ 1,15**	27%
UHS	$ 125,00	$ 122,66	$ 2,34	$ 7,00	**$ -4,66**	-66,6%
RUN	$ 5,00	$ 4,98	$ 0,02	$ 1,15	**$ -1,13**	-98,3%
FSLR	$ 33,00	$ 29,21	$ 3,79	$ 3,80	**$ -0,01**	-0,01%
NEE	$ 125,00	$ 114,09	$ 10,91	$ 3,80	**$ 7,11**	187,1%
NRG	$ 11,00	$ 11,21	$ 0,21	$ 1,10	**$ -0,89**	-80,9%
CAT	$ 82,50	$ 93,34	$ 10,84	$ 2,40	**$ 8,44**	351,7%
IR	$ 65,00	$ 74,46	$ 9,46	$ 6,20	**$ 3,26**	52,6%
NVO	$ 35,00	$ 32,42	$ 2,58	$ 1,15	**$ 1,43**	124,3%
USD/MXN	$ 18,60	$ 20,56	$ 2,04	$ 0,48	**$ 1,555**	324,0%

Figure 16: Overview of the outcome

The lowest possible coverage is 100%. This would be the result if the stock price on November 18th were to be equal to the strike price. In that case, we would have no profit from either put or call options, meaning that our loss would be equal to the price of the options purchased for that stock. As we see from figure 16, the result after the election was that our portfolio had six profitable stocks, and four that resulted in a loss. The worst asset relative to cost, was the Sunrun stock due to its stock price on November 18th being only 0,02$ lower than our strike price. Still, this only resulted in a loss of 1,13$ per option. The worst in general was the UHS stock with a loss of 4,66$ per option. On the other hand, we had several assets in our election portfolio that gave us significant profit, the best one being the Caterpillar stock with a profit of 8,44$ per option.

The total cost of investing in our portfolio, given that we purchase one of each and that they all have a ticker volume of 100, was 3 262$. The resulting profit was 1 661,50$. This means that the total portfolio coverage was 50,8%.

[6] CFP - Change for Profit

Given that the investments gave returns after only eleven days, this is a very high result. It also makes it reasonable to assume that our overall predictions were trustworthy. Even though we are aware of a few weaknesses to our model. We are also aware of some external factors that were not included in our model even though they had significant effects on the portfolio result.

Looking Back at Our Model

There were several factors that could affect our model and predictions, some expected and some unexpected. Several experts commented before the election that markets were positioned for a Clinton win (Kuntz, 2016). It is therefore reasonable to assume that the financial changes would have been smaller if she had won. This would in turn most likely have made our model less profitable than it turned out to be when Trump won. Another factor which played an unexpected role in the markets was the failed trials of a new major Alzheimer drug (Bloomberg, 2016). This caused the pharmaceutical market to drop even though Trump won, something we did not expect to happen. This was the expected outcome of a Clinton win, and it gave us some additional profits which our model could not predict. It is also worth mentioning that the same sector took another blow in early December as Trump unexpectedly presented plans similar to the ones Clinton had proposed about increasing regulations in drug and medicine prices (Hopkins, 2016). However, this was after our expiration date.

In addition to factors that were not included in our model, it has a few other weaknesses that must be noted. Our portfolio only consisted of ten assets across six sectors. For purposes of minimizing risk through diversification, this is not a lot of assets. Another factor is the reliability of our data. Some of the stocks we have chosen were traded in very small and, in the case of Sunrun, no volume. This means that the prices for options on these assets could have been highly perceptive to changes if someone were to start trading, making the prices we have used less reliable.

As this is a term paper written by two students with limited experience on the subject, the model and analysis has been simplified. It takes years of studies and experience to acquire an advanced knowledge and understanding of the financial markets, and there is with no doubt possible to make a more optimal model supported by more calculations and consisting of more assets would be more reliable, and that it would most likely also be more profitable. Such a model would also require a lot more computing power than we can access, and so it is not only knowledge which limits the possibility of making one.

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Appendix

How We Gathered Data:

Stock Data

- Yahoo finance —> historical data 05.08.2016-09.11.2016—> download data
- Cleanup
    - Data—> text to columns
    - Substitute «.» with «,»
    - Make it a table and change the order, so we start 05.08.2016
    - Gathered the remaining data in the attached excel file

Option Data

We needed to find prices on call options and put options on all our assets:

→ Bloomberg
→ Typed the ticker symbol, EQUITY key, GO
→ Went to Option Monitor

Excel File

Throughout the document we are referring to the excel document. The document follows our term paper, starting with our collected Election Data from RealClearPolitics. Then there is a sheet for each sector that we include in our portfolio, with the respective assets. Then follows a summary of our main findings combined with our strategy in the sheet called Straddle. Following this are a sheet for each of our assets analyzing the possible profits and losses with a chosen strike price, and the following prices for the options (gathered from Bloomberg Terminal). At last, there is a sheet with all our results together.