Lesson 4 (Nov. 15): Risk Management and Macroeconomic Factors

- Ways to Manage Risks
    1. *Beta & Passive*
        - Drawdown: a period when an asset's return is negative relative to a previous higher mark
        - Measures drawdown to address 3 things
            - Magnitude of each period
            - Duration of each
            - Frequency
    2. *Alpha & Active*
        - Additional risks on top of market and systematic risk by using an active strategy
            - Tactics that leverage stock
            - Sector or country selection
            - Fundamental analysis
            - Position sizing
            - Technical analysis
- Macroeconomic Factors
    - Money Supply
        - The amount of money circulating in the economy at any given time
        - Controlled by the Central Bank's Monetary Policy
            - *Expansionary Monetary Policy*
                - Stimulates the economy and prevents economic downturn by increasing the money supply
                - Used in times of deflation
            - *Contractionary Monetary Policy*
                - Slows the economy and prevents rising interest rates by reducing the money supply
                - Used in times of inflation
        - Impacts inflation and interest rates
    - Inflation
        - The prices of goods and services increase
        - Includes demand-pull inflation, cost-push inflation and built-in inflation
        - Measured by the Consumer Price Index and the Wholesale Price Index
    - Exchange Rates
        - The rate at which one currency will be exchanged for another currency
        - Impacted by the economic activity, market interest rates, GDP and unemployment
        - Influences the cost of goods for consumers (lower valued currency means imports are more expensive and exports are cheaper)

        - Influence the domestic and foreign demand for investments as well as the associated risks and returns
        - *Floating*
            - Determined by foreign exchange markets and fluctuates based on supply and demand
        - *Pegged or Fixed*
            - Set firmly by the monetary authority
            - Fixed to the value of a specific country's currency
    - Economic Growth & GDP
        - Overall increase in the aggregate market value through the additional production of goods and services
        - GDP (Gross Domestic Product) measures economic growth
            - *Real GDP:* adjusted for inflation
            - *Nominal GDP:* current prices
            - Sum of consumer spending, business investment, government spending and net exports
        - Generated through an increase in the amount of capital goods (equipment), technological growth, increase in labour force participation and human capital
    - Technological Advancements
        - Innovations of new technologies increase productivity, which grows expected success and yield
            - Higher expected yield, suggests it is a stronger investment and will impact the company's share price
        - Technological advancements have also provided new opportunities for individuals to invest
            - Online trading
            - High-Frequency Trading
            - Real-Time Market Data
        - Increases accessibility, knowledge and capabilities