Speculative Investment

Hamilton Finance Club - 2/4/2021

What is Speculation?

- High-risk, high-reward trading to take advantage of market fluctuations
- Almost always short-term (< 1 year)
- Can cause overvaluation, bubbles, and even market crashes
- Includes but is not limited to short selling and options trading

Short Selling

- Speculates on a decline in value
- Starts by "borrowing" a security then "buying back" before the expiry date
- Goal: the price you "sold" it for is higher than the price you paid to "buy back," so you earn the difference
- Caveat: relies on margin, and interest accrues while the position is open

Options Trading

- Options contract: gives you the right to trade 100 shares of company stock or other securities (investments)
- **Does not** represent ownership
- Prices fluctuate drastically based on changing stock prices / market news
- Have **strike prices** after which they can be "exercised" or simply sold

Types of Options

- Calls: allow you to buy 100 shares
- Puts: allow you to sell 100 shares
  - Similar to short, but no buying back
- Can only be exercised when:
  - Stock price goes above strike price (call)
  - Stock price goes below strike price (put)
- Most options are not exercised
  - Typically sold back on the market
  - Only exercise if you want to keep the stock

Review: Options and Shorts

- Can be used both for profit-seeking and for hedging
- Are useful in the short-term to take advantage of large market fluctuations
- Extremely risky (infinite potential losses in the case of short selling)
- Invest in these only if you have a **high risk tolerance** and are at peace with losing most of your investment
- What's going on in the stock market?

Thank you for coming today!