THE INTANGIBLE
June 2017 Edition

Brazil, Country of Bribery
INTRO TO WALL STREET
SATURDAY, JULY 8TH

10 AM - NOON
INTRO TO CAPITAL MARKETS - MC 5501

NOON - 1 PM
LUNCH (PROVIDED) - MC 5501

1 PM - 3 PM
EQUITY VALUATION - M3 3103
FIXED INCOME VALUATION - MC 5501
DERIVATIVES VALUATION - M3 3127

* YOU MAY ATTEND ONE TUTORIAL OF YOUR CHOICE
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Brazilian Corruption Scandal—Page 5

Brazil is facing its worst economic recession in history, with market prices tumbling down as investors lose faith in its political system. The famous “Car wash” Scandal from its previous two presidents and new investigations on the current president’s shows that scandals have been around in Brazil for decades. The scandals involves some of the biggest companies in Brazil including oil company Petrobras and beef exporter JBS. This article delves into these scandals and its effect on the Brazilian economy and market.

Age of the Sharing Economy—Page 7

As technology has grown, new economic models and developments have also occurred. One of the most exciting developments is the Sharing Economy. This article looks at what the sharing economy is and its rapid growth into becoming part of everyday life and its huge potential for growth still.

Dropping the Shoe on Foot Locker—Page 11

Foot Locker (NYSE:FL) has taken a drastic hit in its stock price recently, falling from the high $70’s into the $40s. The catalysts for this drop are misses on earnings and revenue last quarter, consumer fear of brick-and-mortar stores, and Amazon’s potential effect on the shoe market. This article digs into the financials of Foot Locker and proposes that the selling is overdone and that fear, though sensible, should not result in the exacerbated drop that occurred as Foot Locker remains a titan in a lucrative athletic apparel field.

Crude Battle in Oil—Page 14

This article is a comprehensive look into the prices of crude oil. It will start by summarizing oil’s start to 2017. We will then closely examine three key factors that affect the prices of oil before looking at why oil prices have fallen since 2014.Finally the effects of low oil prices and a trading strategy will be discussed.

* Click on any title to jump to the article
Political Scandal and the Market

The sharp increase in political uncertainties in Brazil has led the country’s economy to tumble down. The current Brazilian president, Michel Temer took over his predecessor Dilma Rousseff on May 12th 2016 after contributing in removing Rousseff from office in her impeachment trial. Temer has been reported by Brazilian newspaper O Globo in his first month of presidency, a tape record of him in a conversation with Joesley Batista, whose family controls JBS -- the world’s biggest beef exporter; about buying off Eduardo Cunha, who has been convicted of taking bribes in the Petrobras scandal (more to come in “Even More Past Scandals”) to “stay quiet” and another politician to resolve a problem for the company that owns JBS. The politician later caught on film of receiving 500,000 reals ($159,000 USD) from Batista. Even though Temer insists that he had “never solicited payments to obtain the silence” of Mr.Cunha, Brazilian citizens and protesters still are demanding a fresh election. Brazil’s top court is currently going under a probe on Temer. Right after the release of O Globe’s news on May 17th, the Brazil stock market index BOVESPA has slumped 8.8% and the Brazilian Real fell more than 7.5% against USD on the next day. Up until the end of June, the BOVESPA is still
dropping at a steady speed.

Previous Meat Scandal

The news comes as Brazil is already suffering through record-high unemployment and its worst recession in history; China and some other countries have put up a ban on Brazil meat imports due to the allegation that Brazil companies have been selling unsafe produce for years which was later lifted after clarification of police investigation on health inspection. Brazil’s economy would have suffered even more as Brazil’s economy relies heavily on Chinese imports; China and Hong Kong combined buy a quarter of Brazil’s red meat exports. The country has also been embroiled in an infamous bribery scandal for over 3 years known as the Operation Car Wash which involved Petrobras which is Brazil’s biggest oil and construction company and Temer’s predecessor Rousseff who has been convicted of the crime.

Even More Past Scandals

Bribery scandals in Brazil have been around for years. The Operation Car Wash scandal which removed Rousseff from office and put Temer into presidency has only been settled for a year. During Rousseff’s 4 years and 15 months presidency, she manipulated the federal budget to fake a growing deficit, and illegally used the funds to pay members of Congress in exchange for supporting votes. And since 2014, Operation Car Wash has been under investigation launched to investigate Brazil’s biggest construction firm overcharging state-oil company Petrobras on building contracts. In 2007, as Petrobras discovered the “pre-salt” oilfields, so-called because the oil lies under a 2km thick layer of salt under ocean. The Worker’s Party was keen to keep the pre-salt out of private hands and made Petrobras the sole operator of the pre-salt discoveries, leading the company to embark on the biggest corporate capital expenditure programme in the world. Part of the windfall would then be handed to Petrobras’ executives and politicians who were in on the deal. Rousseff’s predecessor Luiz Inacio Lula da Silva has been accused for playing a key role in the scandal which he denies. During Silva’s presidency, some members of Worker’s party became executives of Petrobras as he steadily collected control power of the company.

The name Operation Car Wash comes from politicians who receive windfalls trying to “money launder” the gains through operating car wash stops and claiming the gains were earned through such businesses. Some put their illegal gains to Swiss bank accounts as well.

Since then, Brazil’s economy has been shrinking, inflation rate has reached a decade high of 10.7% similar with the unemployment rate.

What’s Next?

As foreign investors continue to lose faith in Brazil, the country badly needs a reform on its political system and domestic employment opportunities that do not rely on heavily exports in order to drag it out of recession. A corruption strike is also necessary for political clearness.
Evolution of the Internet

There has been four stages in the evolution of network development. The first stage is the free sharing of web rules among programmers. The second stage is people sharing their lives online, through websites such as Facebook and Twitter. In the third stage, people share their own creative achievements on the Internet using sites like YouTube and Flickr. In the fourth stage, people use the same technology to share all kinds of property in the real world. This shift makes it difficult for people to understand that property is naturally exclusive. However, it is a waste to own a property which isn’t being used and not let others use it. With the rise of renting, the ownership rights and use rights are separated again.

Intro to the Sharing Economy

More and more people are not taking taxis, but traveling with Uber; not staying in hotels, but renting houses through Airbnb; not going to restaurants, but choosing to privately cook. The enthusiasm for entrepreneurship and the embrace of capital have made the sharing economy more popular. The "sharing economy" was accepted and widely disseminated in the financial and economic crisis, and the initial and basic function was to provide a way for people who are in trouble to make money and save money. The sharing economy is growing rapidly and is being endowed with moral significance. By using the Internet to reduce transaction costs, increase efficiency, and reduce waste of resources is a response to the excessive current consumption, and is a sustainable development of the economy. "Sharing economy" is an economic means to reduce transaction costs and improve resource allocation efficiency through the Internet.

Sharing Economy Economic Model

The "Sharing economy" is also called "collaborative consumption", which first appeared in 1978, in an American behavioral scientist "magazine. Scholars have studied car sharing, and it was widely spread and accepted after the financial crisis in 2008. Policy makers and academia are interested in the "sharing economy" economic model.
which could create social wealth rather than an increase in the income of ordinary households. After 2011 and 2012 when cloud computing and trust management were discussed at one of the world’s largest IT fair’s (Hanover consumer electronics), the "sharing economy" would become the central issue in 2013. In 2014, the department of commerce launched an independent research project to advise on how to turn the UK into a global "sharing economy". Within recent years, the online rental industry has grown in the market. According to the research, “72% of people already rent items that they do not use frequently”, and that by the “2025, 50% of the total revenue in the U.K will be from the sharing economy industry”.

"72% of people already rent items that they do not use frequently“

Enterprise minister. Matthew Hancock said: "the new business model to maximize the use of idle resources, and let people get the best price in the market, which makes the all families can make money. Sharing economy has great potential, the British needs to stand in the forefront in this field." An example of the shift towards the sharing economy is the unlimited replication of music on the Internet. As early as in 2000, the Foundation on Economic Trends, chairman Jeremy Rivkin said: "abandon property rights and the trading market, promote interpersonal relationship to achieve structural transformation from the concept, that is from the concept of property rights of share ideas. Nowadays, for many people, this shift is incredible, as it was hard to believe that 500 years ago, enclosure movement, land privatization and labor would become the property relationship between people. 25 years later, for more and more businesses and consumers, the concept of ownership will present obvious limitations, and even some inappropriateness“. Fifteen years after the prophecy, the status of the right to use has been revealed. The spirit of "sharing economy" is to bypass ownership, to be pragmatic and to focus on "use rights", to share products and services, and to
save money, time, space and resources. The concept of "sharing economy" is not a stranger, but as a new economic model, also advances in every field. The traditional economic models and the "sharing" will be mixed together in the future. Sometimes, they seek synergy in each other’s fields to promote mutual value; sometimes, they compete fiercely to replace each other. The final result is unknown, but change has come, and it may change the world.

"2.7 million Canadian adults participated in the sharing economy spending $1.31 billion"

The headline from Statistics Canada’s recent release describes a new sector of the Canadian economy that's growing fast: 2.7 million Canadian adults "participated in the sharing economy" between November 2015 and October 2016, spending $1.31 billion in the process. The national statistics agency asked Canadians about how they use four services that are frequently cited as examples of the supposedly new "sharing economy": ride-hailing services Uber and Lyft, and short-term home rental services Airbnb and Flip key. Over the past few years, the sharing economy industry has grown rapidly and has a thriving potential in the market. It is shown that “72% people already borrow or rent items they do not use frequently.” In today’s society, approximately “64% of American adults now own a smartphone” which means through the development of technology and the wide sharing industry, there is a greater demand of users who are involved in the sharing market.

Impact of the Sharing Economy

In an age, when the majority of people are pursuing privatization of resources, a large proportion of people have chosen another way of life. People are not on loan from banks but on the Internet platforms, so people can borrow money from each other. Illustrated with George Bernard Shaw’s classic sayings: "if I have an apple, you also have an apple. If we exchange apples, we still get an apple. But if you have an idea, I also have a thought, and we exchange these ideas; then, each of us will have two ideas." It is not hard to see that the theory proposed is similar to that of today’s sharing economy. What is the sharing economy? In short, the sharing economy is to share your spare resources to others, to provide the utilization of resources, to obtain the return and value, and the idea is to have but not possess. The old economy was a piece of cake, and everyone came to eat it, but in the sharing economy, I only take what I like to eat. Nowadays, there are
more and more private cars. However, 80% of all the car owners, the real time of using the car on average is no more than 4 hours, and cars spare time up to 20 hours in the parking lot. In the near future, we will be able to choose the sharing economy, but we may be forced to choose to share economy. The division of industry will be more and more bright refinement, and everyone will be not only a kind of identity. For example, people can be a company employee and can be a family teacher, driver, etc., so more people can do freelance work. How do we manage the sharing economy? In a Shared economy, everyone is a provider of resources and a beneficiary of resources. The information revolution of this new form, the optimal configuration and the new idea has also gave the long-term Internet service companies new business opportunities. In big Internet companies, the association of resource integration of thousands of entrepreneurs to the circle, using big data applications and the establishment of the sharing platform for the public to restore trust. Through authentication, people can enter social networks, monitoring trading all the way to enhance resource cash-ability. People can take advantages of the platform and use the platform as a rallying point for interests, to earn another income. Today, the sharing economy is slowly being driven by some people, reshaping services, building free sharing platforms and leveraging services to create added value.

“The old economy was a piece of cake and everyone came to eat it, but in the sharing economy, I only take what I like to eat”
Foot Locker (NYSE: FL) is a global athletic apparel retailer that carries all the leading athletic brands. They have many subsidiaries including ‘Champs Sports’, ‘Footaction’, ‘Eastbay’, ‘Runner’s Point’, ‘Kids Foot Locker’, and ‘Lady Foot Locker’. It is part of the S&P500 and has a market cap of $7.01 billion with 15,761 full-time employees. Foot Locker offers a 2.38% annual dividend and repurchased 7 million shares for a cost of $432 million in 2017. Foot Locker also has a 10.64 P/E, less-than-one P/S (price-to-sales) ratio and a measly 2.4 multiple on book value compared to a ~16.68 P/E average for shoe retailers (Stern). In 2015, the athletic apparel retailer recorded a 100 million pension litigation charge for failing to include a change in its cash-balance formula in their conversion of their retirement plans in 1996 which could be realized for as high as 200 million dollars as litigation continues. Foot Locker’s share price has recently been shredded (with RSI in the single digits) from the 70s to low 50s due to same-store sales rising only 0.5% compared to a 1.4% Wall Street estimate, and a 1% miss on both earnings and revenue presenting a potential long opportunity.

Environment

Euromonitor reported sales for global apparel to $1.67 trillion for 2016 which is a 3.8% increase from the previous year. Euromonitor says it was buoyed by sports-inspired apparel and footwear increasing 6% and 10% respectively maintaining their sustained dominance (Figure 1). From this and personal experience, I see very little reason to doubt the future of Foot Locker’s sector.

Foot Locker’s (NYSE: FL) main public competitors are other athletic good retailers such as Dick’s Sporting Goods (NYSE: DKS) and Finish Line (NASDAQ: FINL). Dick’s improved revenues by 6.7% from 2015-2016 and 9% from 2016 to 2017 but with net income decreasing at 4% and 13% respectively. Finish Line increased their revenues 2.75% from 2015-2016 and 2.5% to 2017 but realized a decrease in net income by 73% and 182%. The staggering net income decreases in both companies is fueled by huge impairment, store closing costs and net loss resulting from discontinued operations. In short, they are each having trouble with underperforming...
Meanwhile Foot Locker’s revenue increased by 3.6% to 2016 and 4.7% to January 16th 2017, with net income increasing 4.23% and 22.7% respectively. Footlocker is not seeing the same store closure problem that Dick’s Sporting and Finish Line are facing. While Foot Locker closed 42 Lady Foot Locker stores, they simultaneously opened 45 Kids Foot Locker ones showing that they are aware of their demand; a key measure in determining quality management.

Nike, one of Foot Locker’s greatest suppliers has also recently seen a dip in their share price because of their plan to cut 1,400 workers, representing 2% of their workforce, to focus on e-commerce. This strategic move is also to combat the supposed paradigm shift away from athletic shoes into more fashionable footwear. The layoffs have also negatively affected Foot Lockers share price due to the inherent dependency of the two companies. Nike’s 5% increase in revenue Q1 YOY and 20.1% increase in net income bodes well for Foot Locker even with the concern of the decline in athletic shoes.

With the ongoing narrative about the death of brick and mortar (read about it in May 2017 newsletter), it is good to see that in Foot Locker’s most recent 10-K, Foot Locker disclosed an 8.8% increase in e-commerce sales with increase in men’s sales “primarily driven by strong gains by the Jordan brand” (Figure 2). This is a notable point because of the exclusivity of the Jordan brand and their lack of presence in non-athletic retailers. With Footlocker owning subsidiaries such as Champs Sports, Eastbay, Foot Action and Runner’s point, they essentially have a monopoly on the coveted brand.

**Position**

At the end of 2016, Footlocker held $920 million in cash net of debt, including a $25 million increase in cash from the previous year with a quick and current ratio of 2.5 and 4.9. Their cash flow has been increasing at a decreasing rate, declining at a rate of 50% a year. This is an alarming rate which is caused by Foot Locker increasing their capital expenditures by approximately 20% per year while also increasing the amount of dividends paid out and share repurchases because of the stock price surge in the last two years prior to the recent dip.

Net cash provided by operating activities increased 9.4% from the previous year. The most troubling item of their Q1 2017 10-Q is that sales have only increased 0.7%
Y0Y while cost of sales increase 2% Y0Y. The previous fact coupled with the fact that net income dropped 5.7% Y0Y has caused investors to panic and claim that the renowned brand is dying along with all the retail casualties that have been paraded as bankrupt-bound including JC Penny, Macy’s, and Sears. The problem with this assertion is that Foot Locker’s target audience will not easily find a replacement for the specialized goods they seek. A Foot Locker “equivalent” includes small local sneaker boutiques or e-commerce sites from the shoe makers themselves and the store competitors mentioned earlier. It is easily discernable that Foot Locker and Nike/Adidas e-commerce are the least susceptible to being deemed a brick & mortar casualty out of these options.

I believe that the worry about the future of athletic apparel is overblown and must be focused on the transfer of revenue from in-store to digital commerce sales which grew 18% for the third quarter and 35% first nine months of the fiscal 2017 for Nike for example.

A proponent for Foot Locker must be convicted

“"The worry about the future of athletic apparel is overblown"

about sneakerhead’s desire to try on shoes in store or Footlocker’s website rather than the option of buying directly from the manufacturers like Nike, Adidas, Under Armour etc. I am personally weary of the ability of the manufacturers to erode the Foot Locker’s revenues as the manufacturers are able to provide better deals to the end consumers since they can cut out the middle-man retailer. They could essentially blackball the retailers with ease as their own e-commerce becomes more prevalent.

“Foot Locker is virtually a monopoly”

Conclusion

Foot Locker’s direct competitors are barely competitors. They struggle with being able to keep all their stores alive and lack the online presence Foot Locker has which will prove to be their downfall. The constant store closings are eating their bottom lines and will continue to do so until they sit on a footnote of retail casualties with Macy’s and JC Penny. Foot Locker is virtually a monopoly, in a great position financially, and is nowhere near anything resembling being bankruptcy or even financially downtrodden.

The future of sports apparel including footwear looks bright and the only negative I can see is the shift from consumers purchasing retailers and buying straight from the manufacturer’s e-commerce presence. This is my prime concern in the matter as Nike.com and the like are growing exponentially.

However, anybody that believes in value of purchasing shoes in-store should buy this great example of an exemplary balance sheet, dominant retail player, and wildly oversold stock. Disclaimer: I am on long on Foot Locker (NYSE: FL).
**Current market**

Crude oil (WTI) (FX:USOIL) got off to a relatively stable start to 2017 with prices in January and February hovering in a platform in the range of $50 to $55. Once the platform was broken on the support line of $50 in the beginning of March, oil began to enter a downtrend and headed towards its next support level at $45. On May 5th, crude oil briefly fell below $45 due to unfavourable Energy Information Administration (EIA) data on May 3rd and news of the increasing number of oil rigs for the 16th straight week. However, oil rebounded on the same day due to assurance from Saudi Arabia that Russia would join Organization of the Petroleum Exporting Countries’ (OPEC) agreement to extend supply cuts. After weeks of good and bad news from OPEC, EIA reports, and other factors, oil would finally fall below its support of $45 on June 14th, 2017.

**Factors affecting oil prices**

Most events and reports that fundamentally drive oil prices can be classified under 3 categories; current supply, future supply and demand.

Historically, the current supply of oil is controlled by OPEC production targets. As a result, the price of oil tends to rise when OPEC cuts production targets and fall when OPEC increases production. OPEC’s decisions have a large impact on oil prices because about 40% of the world’s crude oil is produced by OPEC members; representing a huge market share for the commodity. Furthermore, OPEC oil production generally falls under central coordination with producers being national oil companies (NOC), while non-OPEC oil production decisions are made independently by investor-owned oil companies (IOC). This difference causes non-OPEC producers to take a reactive approach to market prices while OPEC attempts to influence prices. Non-OPEC countries also have a disadvantage in that production often occurs in areas with higher exploration and production costs such as Deepwater offshore rigs and oil sands. Due to this, non-OPEC producers lead the attempt at producing new extraction technologies and venture into natural gas production which can both put downward pressure on oil prices.

The future supply of oil mainly depends on several factors. One source of future oil supply is the Strategic Petroleum Reserve (SPR) which is an emergency stockpile of oil which the U.S. Department of Energy stores to use in a crisis that could enter the market in a mere 13 days. Another source of future oil supply comes from the spare capacity that OPEC countries often have. The EIA defines spare capacity as the volume of production that can begin in 30 days and be sustained for 90 days. For example, Saudi Arabia usually keeps around 1.5 - 2 million barrels per day of spare capacity.
for market management.

Oil demand comes from the consumption of oil which can be separated into two distinct groups. The first of these groups is The Organization of Economic Cooperation and Development (OECD) which consists mainly of countries that are classified as advanced economies by the IMF. These countries currently consume 53% of the global oil consumptions, but has declined in the past decade while non-OECD countries which has grown by 40%. OECD countries have a high vehicle ownership per capita so transportation makes up a higher segment for OECD countries. The growth for non-OECD countries can be tied to many factors such as growth in economic activity, rise in population and greater manufacturing proportion. China, a major non-OECD country has seen significant growth and is currently the 2nd largest oil consumer and is responsible for a significant proportion of oil consumption growth.

**Decline and Resurgence**

Oil prices fell quickly in mid-2014 from $106.05 to $43.56 in the span of half-a-year. One reason for the decline was the slower growth of non-OECD countries such as China, Brazil and India which lead to much slower growth in the demand for oil. Another key reason for this decline started in 2011 when the United States started to quickly increase its own production of oil with IOC extracting oil from shale formations. This initiative would cause the U.S. to cut its oil imports sharply and become a lot less reliant on OPEC while also increasing the supply of oil. As oil prices began to fall in 2014, OPEC and its major players such as Saudi Arabia had a key decision. They could either let prices continue to drop or they could cut their production and lose market share to send prices upwards. Saudi Arabia would choose to former and help fuel a bearish oil market as prices began to head towards $30.

Why did OPEC and Saudi Arabia make this decision? A key reason for this is the cost of production. Saudi Arabia can
produce oil very cheaply and due to their large oil reserves, it is able to withstand the lower oil prices for an extended period of time. Meanwhile, shale oil production had high costs at the time and thus their breakeven points are higher making it unsustainable for long periods of time. Therefore OPEC was hoping that lower oil prices would make U.S. shale unviable in the long run.

This decision worked at first and caused the U.S. to cut production in 2015 and into 2016. However shale oil has since adapted and its breakeven point has fallen from around $66 - 98 per barrel to $29 - 38 per barrel. This is due to shale drilling and completion costs falling over 30% along with an increase in the amount of oil received in a well from 5% to 12% and according to industry experts, a 25% rate is a conservative estimate for 2020. The increased popularity of shale oil has definitely caught on and energy sector giant Exxon (NYSE:XOM) began to shift investments to shale oil starting in March 2017. Due to this and the increase of crude oil prices from $30 to $50, the U.S. oil production is once again surging.

Effects on countries

The ongoing battle between OPEC and US Shale has had major implications on countries and industries. Canada is one country that has certainly been hurt by the lower oil prices. The Canadian Dollar has a correlation of 0.78 to oil even though it has started to unravel in the past year. The CADUSD (denominated in Canadian Dollars) exchange rate decreased from 0.9413 (0.9413 USD = 1 CAD) in July 2014 to 0.6809 at its lowest point in January 2016 (-27.7%) and has recovered to 0.7564 in June 2017 and a similar trend occurred in the TSX market. Coincidentally, oil hit its lowest point in February 2016 but was very close in January 2016. Canada is affected more than other large oil producers such as Saudi Arabia due to the higher cost of extracting oil from the Canadian oil sands. Aside from Canada, Russia has also taken a large hit and it can be seen in the Russian Ruble and US dollar exchange rate (RUBUSD) which has declined from 0.029545 in July 2014 to 0.011375 in January 2016 (-61.4%). This is also evident in Russia’s GDP which declined 3.7% in 2015 and 0.6% in 2016. Furthermore at the beginning of the decline of oil prices, Russia raised its interest rate to an all time high of 17% in December 2014 even though it has since recovered to 9% which is still higher than early 2014. Even though oil isn’t the only factor, it certainly played a big part.
**Market strategies**

Oil has been volatile in the short term with weekly fluctuations that are often over 5%. Looking at the oil chart from a daily standpoint, there is currently a downtrend in the oil market, with lower lows and lower highs being set. This along with the recent break of the $45 support is a bearish signal.

A much more interesting trading strategy can definitely be spotted in the weekly chart. Over the past year, oil seems to be fluctuating in a platform of around $40 to $55. As it trades in this platform it fluctuates weekly from the EIA reports, oil rig count and OPEC news with fluctuations of around 5% common. This makes oil a prime target for leveraged ETF decay caused by beta-slippage. This can be done through shorting a leveraged ETF that tracks oil such as (NYSE:UCO) and (NYSE:SCO) which are 2X bull and bear ETFs. To see this in action we can compare the performance of (NYSE:USO), UCO and SCO. USO had a closing price of $9.27 on January 22, 2016 and a closing price of $9.24 on June 16, 2017, a decrease of 0.32%. UCO had a closing price of $17.55 on January 22, 2016 and closed at $14.14 on June 16, 2017, a decrease of 19.4%. SCO would decline from $101.69 to $45.69, a decrease of 55.1% However, any trader that attempts to take advantage of leveraged ETF decay must exercise extreme caution by taking a very small position due to the inherent risks of shorting and the increased risk of shorting a leveraged ETF. Furthermore, a prolonged trend in the opposite direction can have magnified negative effects due to leverage. A chart comparing USO, UCO and SCO is provided on the next page.

**Takeaway**

The battle between OPEC and U.S. shale along with U.S. shale producers’ continuous efforts to find ways to lower costs and extract more oil has seen this battle drag out. Many countries and industries have been affected either negatively or positively such as the poor-performing Russian Ruble and the more profitable airline industry due to cheaper jet fuel. While an end to the battle between OPEC and U.S. shale and the long-term implications can be difficult to predict, traders are able to take advantage in the short term of the large weekly fluctuations in oil from EIA reports and the occasional OPEC meeting through the careful use of leveraged ETF decay. Furthermore due to oil’s large range of correlations, there is plenty of opportunity in markets such as FOREX and a variety of industries.
First Chart: UCO (2X Bull)
Second Chart: SCO (2X Bear)
Third Chart: USO (1X Bull)
Economic Calendar

Monday, July 3
  • ISM Manufacturing Index

Wednesday, July 5
  • FOMC Minutes

Thursday, July 6
  • International Trade
  • Jobless Claims
  • EIA Petroleum Status Report

Friday, July 7
  • Employment Situation

Wednesday, July 12
  • Bank of Canada Policy Meeting
  • EIA Petroleum Status Report

Thursday, July 13
  • Jobless Claims
  • Producer Price Index—Final Demand

Friday, July 14
  • Consumer Price Index
  • Retail Sales
  • Industrial Production
  • Business Inventories
  • Consumer Sentiment

Wednesday, July 19
  • EIA Petroleum Status Report
  • Housing Starts

Thursday, July 20
  • Jobless Claims
  • Philadelphia Fed Business Outlook Survey

Monday, July 24
  • Purchasing Manager Index Composite Flash
  • Existing Home Sales

Wednesday, July 26
  • International Trade in Goods
  • EIA Petroleum Status Report
  • FOMC Meeting Announcement

Thursday, July 27
  • Durable Goods Order
  • International Trade in Goods
  • Jobless Claims

Friday, July 28
  • GDP
## Major Indices

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<td>SSE Composite Index</td>
<td>SSEC</td>
<td>3147.23</td>
<td>3154.78</td>
<td>3016.53</td>
<td>3117.18</td>
<td>-30.05</td>
<td>-0.95%</td>
</tr>
</tbody>
</table>

## SPDR SECTOR ETFS

<table>
<thead>
<tr>
<th>Sector</th>
<th>Ticker</th>
<th>Open</th>
<th>High</th>
<th>Low</th>
<th>Close</th>
<th>Change (Points)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>XLY</td>
<td>91.28</td>
<td>92.42</td>
<td>88.46</td>
<td>89.63</td>
<td>-1.65</td>
<td>-1.81%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>XLP</td>
<td>56.71</td>
<td>57.36</td>
<td>54.64</td>
<td>54.94</td>
<td>-1.77</td>
<td>-3.12%</td>
</tr>
<tr>
<td>Energy</td>
<td>XLE</td>
<td>65.47</td>
<td>67.55</td>
<td>63.64</td>
<td>64.92</td>
<td>-0.55</td>
<td>-0.84%</td>
</tr>
<tr>
<td>Financials</td>
<td>XLF</td>
<td>23.38</td>
<td>25.02</td>
<td>23.22</td>
<td>24.67</td>
<td>1.29</td>
<td>5.52%</td>
</tr>
<tr>
<td>Health Care</td>
<td>XLV</td>
<td>76.21</td>
<td>81.08</td>
<td>76.13</td>
<td>79.24</td>
<td>3.03</td>
<td>3.98%</td>
</tr>
<tr>
<td>Industrial</td>
<td>XLI</td>
<td>67.7</td>
<td>69.19</td>
<td>67.13</td>
<td>68.11</td>
<td>0.41</td>
<td>0.61%</td>
</tr>
<tr>
<td>Materials</td>
<td>XLB</td>
<td>53.05</td>
<td>55.22</td>
<td>53.04</td>
<td>53.81</td>
<td>0.76</td>
<td>1.43%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>XLRE</td>
<td>31.87</td>
<td>32.84</td>
<td>31.72</td>
<td>32.2</td>
<td>0.33</td>
<td>1.04%</td>
</tr>
<tr>
<td>Technology</td>
<td>XLK</td>
<td>56.65</td>
<td>57.62</td>
<td>54.33</td>
<td>54.72</td>
<td>-1.93</td>
<td>-3.41%</td>
</tr>
<tr>
<td>Utilities</td>
<td>XLU</td>
<td>53.7</td>
<td>54.63</td>
<td>51.84</td>
<td>51.96</td>
<td>-1.74</td>
<td>-3.24%</td>
</tr>
</tbody>
</table>

## Equities

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Open</th>
<th>High</th>
<th>Low</th>
<th>Close</th>
<th>Change (Points)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>AAPL</td>
<td>153.17</td>
<td>155.98</td>
<td>142.2</td>
<td>144.02</td>
<td>-9.15</td>
<td>-5.97%</td>
</tr>
<tr>
<td>Alphabet</td>
<td>GOOGL</td>
<td>990.96</td>
<td>1008.61</td>
<td>929.6</td>
<td>929.68</td>
<td>-61.28</td>
<td>-6.18%</td>
</tr>
<tr>
<td>Microsoft</td>
<td>MSFT</td>
<td>70.24</td>
<td>72.89</td>
<td>68.09</td>
<td>68.93</td>
<td>-1.31</td>
<td>-1.87%</td>
</tr>
<tr>
<td>Amazon.com</td>
<td>AMZN</td>
<td>998.59</td>
<td>1017</td>
<td>927</td>
<td>968</td>
<td>-30.59</td>
<td>-3.06%</td>
</tr>
<tr>
<td>Facebook</td>
<td>FB</td>
<td>151.75</td>
<td>156.5</td>
<td>144.56</td>
<td>150.98</td>
<td>-0.77</td>
<td>-0.51%</td>
</tr>
<tr>
<td>JPMorgan Chase</td>
<td>JPM</td>
<td>82.46</td>
<td>92.65</td>
<td>81.65</td>
<td>91.4</td>
<td>9.84</td>
<td>10.84%</td>
</tr>
<tr>
<td>Exxon Mobile</td>
<td>XOM</td>
<td>80.37</td>
<td>83.69</td>
<td>79.26</td>
<td>80.73</td>
<td>0.36</td>
<td>0.45%</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>WFC</td>
<td>51.53</td>
<td>56.6</td>
<td>51.06</td>
<td>55.41</td>
<td>3.88</td>
<td>7.39%</td>
</tr>
<tr>
<td>General Electric</td>
<td>GE</td>
<td>27.51</td>
<td>29.47</td>
<td>26.79</td>
<td>27.01</td>
<td>-0.5</td>
<td>-1.82%</td>
</tr>
<tr>
<td>Proctor and Gamble</td>
<td>PG</td>
<td>88.02</td>
<td>90.21</td>
<td>86.93</td>
<td>87.15</td>
<td>-0.87</td>
<td>-0.99%</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>T</td>
<td>38.68</td>
<td>39.37</td>
<td>37.54</td>
<td>37.73</td>
<td>-0.95</td>
<td>-2.46%</td>
</tr>
<tr>
<td>Bank of America</td>
<td>BAC</td>
<td>22.48</td>
<td>24.67</td>
<td>22.07</td>
<td>24.26</td>
<td>1.78</td>
<td>7.92%</td>
</tr>
<tr>
<td>Pfizer</td>
<td>PFE</td>
<td>32.67</td>
<td>34.48</td>
<td>31.67</td>
<td>33.59</td>
<td>0.92</td>
<td>2.82%</td>
</tr>
</tbody>
</table>

## Commodities

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Ticker</th>
<th>Open</th>
<th>High</th>
<th>Low</th>
<th>Close</th>
<th>Change (Points)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>XAUUSD</td>
<td>1267.6</td>
<td>1295.98</td>
<td>1235.26</td>
<td>1241.3</td>
<td>-26.3</td>
<td>-2.07%</td>
</tr>
<tr>
<td>Silver</td>
<td>XAGUSD</td>
<td>17.31</td>
<td>17.75</td>
<td>16.25</td>
<td>16.58</td>
<td>-0.727</td>
<td>-4.20%</td>
</tr>
<tr>
<td>Platinum</td>
<td>XPTUSD</td>
<td>947.24</td>
<td>967.29</td>
<td>912.05</td>
<td>925.14</td>
<td>-22.1</td>
<td>-2.33%</td>
</tr>
<tr>
<td>Palladium</td>
<td>XPDUSD</td>
<td>817</td>
<td>911.12</td>
<td>813.26</td>
<td>841.5</td>
<td>24.5</td>
<td>3.00%</td>
</tr>
<tr>
<td>Copper</td>
<td>XCUUSD</td>
<td>2.57422</td>
<td>2.70062</td>
<td>2.50571</td>
<td>2.69032</td>
<td>0.1161</td>
<td>4.51%</td>
</tr>
<tr>
<td>WTI</td>
<td>USOIL</td>
<td>48.62</td>
<td>49.14</td>
<td>42.03</td>
<td>46.21</td>
<td>-2.41</td>
<td>-4.96%</td>
</tr>
<tr>
<td>Brent</td>
<td>UKOIL</td>
<td>50.95</td>
<td>51.42</td>
<td>44.34</td>
<td>48.97</td>
<td>-1.98</td>
<td>-3.89%</td>
</tr>
</tbody>
</table>

## Fixed Income

<table>
<thead>
<tr>
<th>Bond</th>
<th>Open</th>
<th>Close</th>
<th>Change(bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasury 5 YR</td>
<td>1.762</td>
<td>1.887</td>
<td>0.125</td>
</tr>
<tr>
<td>US Treasury 10 YR</td>
<td>2.213</td>
<td>2.304</td>
<td>0.091</td>
</tr>
<tr>
<td>Canada Treasury 5 YR</td>
<td>0.946</td>
<td>1.397</td>
<td>0.451</td>
</tr>
<tr>
<td>Canada Treasury 10 YR</td>
<td>1.425</td>
<td>1.762</td>
<td>0.337</td>
</tr>
<tr>
<td>British Treasury 5 YR</td>
<td>0.486</td>
<td>0.697</td>
<td>0.211</td>
</tr>
<tr>
<td>British Treasury 10 YR</td>
<td>1.049</td>
<td>1.259</td>
<td>0.21</td>
</tr>
<tr>
<td>Japan Treasury 5 YR</td>
<td>-0.112</td>
<td>-0.061</td>
<td>0.051</td>
</tr>
<tr>
<td>Japan Treasury 10 YR</td>
<td>0.045</td>
<td>0.084</td>
<td>0.039</td>
</tr>
</tbody>
</table>

## High Yield Corporate Bonds

<table>
<thead>
<tr>
<th>Bond</th>
<th>Open</th>
<th>Close</th>
<th>Change($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>iShares iBoxx $ High Yld Corp Bond(HYG)</td>
<td>88.36</td>
<td>88.39</td>
<td>0.03</td>
</tr>
</tbody>
</table>

## Central Banks

<table>
<thead>
<tr>
<th>Rate</th>
<th>Previous (%)</th>
<th>Current(%)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada BOC Key Interest Rate</td>
<td>0.75</td>
<td>0.5</td>
<td>July-15-2015</td>
</tr>
<tr>
<td>US FED Federal Funds Rate</td>
<td>1</td>
<td>1.25</td>
<td>June-14-2017</td>
</tr>
<tr>
<td>Britain BoE Official Bank Rate</td>
<td>0.5</td>
<td>0.25</td>
<td>Aug-04-2016</td>
</tr>
<tr>
<td>Europe ECB Refi Interest Rate</td>
<td>0.05</td>
<td>0</td>
<td>Mar-10-2016</td>
</tr>
<tr>
<td>Japan BoJ Overnight Call Rate</td>
<td>0.1</td>
<td>0</td>
<td>Feb-01-2016</td>
</tr>
</tbody>
</table>
ABOUT THE AUTHORS

Steven Lin, Chief Editor

Steven is a second-year student studying Math/Financial Analysis & Risk Management - CFA specialization at the University of Waterloo. Steven’s passion for the financial markets, charting and the desire to learn more about finance has led him to this role. Steven is also interested in the mathematical fields of linear algebra and statistics and is looking to combine these interests with the financial markets.

While Steven is not in class or in the DC library, Steven enjoys reading financial news and analyzing stocks. Steven also enjoys playing poker and can sometimes be found at the Poker Studies Club. He also loves watching the NBA and the Premier League and is always up for a game of FIFA or NBA2K.

Kwadwo Obeng-Arhin, Editor

Kwadwo is a second-year student studying statistics and finance at University of Waterloo and Wilfrid Laurier University. He is hoping to combine his love for statistics, analytics, and capital markets in post-graduate studies. Kwadwo’s passion for efficiency and logistics has also currently led him to the role of Internal Analyst in the University of Waterloo’s Finance Association.

When he is not in class, Kwadwo loves to find new investing opportunities based on intrinsic value and read the financial reports of companies he understands. In the same way he likes to find undervalued stocks, he approaches fantasy football. He is an avid fantasy football player, football statistics aficionado, and public speaking
ABOUT THE AUTHORS

Mona Zhang, Editor

Mona Zhang is a second-year Math/Business Administration student at University of Waterloo. Mona’s interested in Finance, Computer Science and Statistics which led her to the role of Market Research Analyst in FARMSA.

Outside of school, Mona likes to read newspapers to get to know what’s going on around the world and how those influences the finance market. Mona also enjoys analyzing companies’ financial figures to go beneath the surface and learn about investment strategies. She also enjoys karaoke with friends and reading novels.

Xinghui Guo, Editor

Xinghui is a third-year student studying Financial Analysis and Risk Management, and minor statistic at university of Waterloo. During her high school experience, she contributed to the math team and table tennis team, and had many volunteer experiences. She was an international student, but also got the third place on the public speech competition.

In addition to her wide range of skills, Xinghui had won the prize of Fermat and Euclid Math Competition as a math person. With the bilingual background, Xinghui concentrate on connecting students who are from the different culture backgrounds. Xinghui is willing to improve her knowledge and spread her ideas of finance as the role of editor on FARMSA.
Jing Pu Sun, Editor, Designer

Jing is a fourth year student majoring in Financial Analysis and Risk Management and minoring in Computer Science. He has completed all four exams of the Professional Risk Manager’s certification and is preparing for the CFA level 1 exam. He has been president at FARM student association for two terms and has worked closely with professors on various initiatives to help students build knowledge base as preparation for a career in the financial industry.

While specializing in CFA, Jing is very interested in various portfolio management strategies including value investing, absolute return, global macro, etc. By authoring these articles, he wishes to help university students gain exposure to real life financial markets and global economics.
Sources


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