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THE SCHOONER

The Official Newsletter of the Dalhousie Investment Society (DALIS)

Trade of the Month

Max Barrow, Portfolio Manager; FCT

Position

On January 25th, 2022, Financials, Consumer, and Technology (FCT) placed a call broken wing butterfly on Intel Corporation (INTC) with the stock trading around the $29.75 level. This structure was implemented as a speculative play on earnings; set up through the purchase and sale of February 3rd options.

Briefly, a call broken wing butterfly is a type of options trading strategy that consists of a combination of options contracts for which the strike prices are unequal. The strategy involves buying one in-the-money and one out-of-the-money call option and selling two other call options at a strike price between. The strategy's goal is to profit from the price movement of the underlying security in either direction without incurring a large amount of risk, a more bearish prediction in our case. To be successful, we had to correctly anticipate the direction of the underlying security's price and the magnitude of the move as a result of their earnings. Our position was set up with a net credit of $31,500 ($0.09 per share) and was closed at a credit of $360,500 ($1.03 per share). This represents a total return of $392,000 (roughly 1244%).

Rationale

Upon the emergence of Covid-19, chip companies' stocks witnessed a surge in growth which was fuelled by increased demand and near-zero interest rates. Increased need for tech products and the accompanying services forced businesses to expand their software infrastructure and purchase the necessary equipment to meet such demand. At the same time, the bank rate dropped to near zero and fiscal stimulus flooded the market, leading to an extremely low cost of capital which allowed for rapid development and expansion. The chip market can be cyclical due to the nature of the technology industry, which is highly dependent on consumer demand and is often affected by economic uncertainty. When consumer demand is low, chip manufacturers tend to scale back their production and prices decline. Conversely, when consumer demand is high, production increases and prices rise. This cyclical pattern can be seen over relatively short periods via price swings and less than spectacular forward guidance. This industry-specific downcycle served as the basis of our strategy. Intel was sitting at their lowest EPS levels since 2009, had seen weakening chip demand, and PC sales were slowing in previous quarters. These factors manifested in a bearish view toward the upcoming earnings report. We believed the market's sentiment was too optimistic given the macroeconomic landscape in coming quarters. When setting up the trade, we thought to try something a little more creative. More specifically, we wanted to employ a strategy that allowed us to participate in the downside movement of the shares, and target a specific price change to maximize profits, all whilst collecting premiums on the initial trade. We targeted the peak of the broken-wing to a 6% drop in the stock price but exited when the stock was down 8%. This successful Intel options trade generated a significant return, demonstrating the potential of options trading to provide high returns with relatively low risk.

A Glimpse of What's Inside:

Alumni Spotlight:

Sara Gilchrist

Associate, ESG Solutions Group,
TD Securities

'18/'19 Portfolio Manager, International Equities

What are two pieces of advice you'd give current DALIS members?

1. Everyone will tell you this, but I'll stress it again - use your network! In DALIS, you have the unique opportunity to meet students across years and learn about others' co-op experiences. When I was in second year, two of my friends in fourth year introduced me to their former bosses, which is how I landed both my first and second co-ops. Don't be afraid to ask people for a coffee chat and show up prepared and keen to listen and learn.

2. Take a deep breath. The process of picking a major, finding a co-op, and then securing a full-time job while balancing school and life is a stressful time. If you don't find the job you want right away or if you do find the job, but don't end up enjoying it, these are both incredibly valuable experiences. Understanding what you don't want to do is arguably as important as knowing what you do want. Know that you always have options and trust that you will be able to work things out.

Have you seen any ESG trends shift over your two years within the industry?

Throughout my time on TD's ESG Solutions team, I've seen consistently reinforced that the consideration of ESG factors is no longer a "nice to have", but a "need to have". Companies are facing increasing pressure from all angles, regulators around the world have implemented new mandatory frameworks, and companies and investors both have become more sophisticated in their approach to ESG. Without diving into too much detail, some other trends include: recognition of nature and biodiversity, development of the carbon markets, politicization of ESG, rapid growth in the sustainable debt markets, the need for a just transition, and so much more!

What is your favourite memory from your time at Dalhousie?

In fourth year, my roommates and I hosted a big thanksgiving dinner. We drove around picking up tables and chairs, decorated the house, and had a massive sit-down dinner with all our friends in our living room.

What is an opinion you have that most people disagree with?

I think that most of us significantly underestimate the role that luck plays in our lives and successes.

What was your experience like transitioning from Toronto to New York?

Moving away from home to New York was all at once exciting, terrifying, and a rollercoaster of ups and downs. It took me time to feel settled and to make a home of a new city (something I hadn't experienced since first year at Dalhousie), but I was lucky to have a strong support system through my family, friends, and work. Moving pushed me outside of my comfort zone and introduced me to a world of new opportunities. New York is fast, challenging, bustling, and vibrant. For anyone considering making a move, I couldn't recommend it enough!

January 2023

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January, the best or worst month of the year? I've been debating this question all month. It's now the 26th, and honestly, I still don't know the answer.

I'm embarrassed to admit this, but I'm kind of a sucker for the "new year, new me" antics. Although I laugh along with the cynics, I am internally wired to buy into the idea of creating a better life.

I came into 2023 like I do every year: hot. Determined to prioritize my health, improve my relationships, and ultimately, become a better version of myself. In past years, I've relied on a tactic that Mel Robbins, my new favourite podcaster, refers to as "iny-organization". An iny-organizer, she explains, is someone who stores and tracks everything in their mind – to-do lists, schedules, goals … everything. I felt personally attacked when she said, "motivation is garbage. If you want to be successful, you need to rely on systems outside of your head rather than relying on willpower within your head."

That is exactly what I had been doing. Instead of strengthening my mind, I was cluttering it. Like a muscle, my willpower was constantly engaged, leading itself with no alternative to being fatigued and overworked.

I'm going to stop myself here because my intent is not to motivate you to become the best version of yourself or provide you with the tools to realize your goals, I'll leave that to the professionals … or those who claim to be.

Instead, the point I want to make very clear is that January is tough – for everyone. The holidays are over, the weather is awful, and what feels like a "fresh start" is often plagued by unfinished business from the year before. Like a Monday, January can feel like a return to reality. For those of us who are graduating, this reality is even more real.

Whether you are overwhelmed on your journey to "be better" or lacking motivation all together, I encourage you to be gentle with yourself. This is something I'm working towards in 2023. After a month of checking off boxes on the tangible goals I've created for myself: drinking enough water, getting 10 thousand steps a day, etc., I've realized that nothing trackable is going to change my life – at least not in an astounding way. Don't get me wrong, having SMART goals (as MCS calls them) are beneficial. When you wake up in the morning and achieve exactly what you set out to do that day (even if it's as simple as drinking a litre of water) you will feel a sense of accomplishment. I've found that setting and keeping small promises with myself is the foundation of the life I want to live because it's helping me build trust with the most important person in my life – me. I encourage you to do the same.

But as I said, this is only the foundation. While I will continue to drink more water, etc., what I really hope to achieve in 2023 is not something that can be checked off a list. There is no destination, no finished product, and no real way of measuring my success. Doesn't that sound less stressful? I think so.

I feel like over the past three years I've been so focused on my future that I've almost forgotten how to be present. I don't think I'm alone in this. Just yesterday I attended a weekly DALIS meeting where we heard from two industry professionals who encouraged our younger students to apply for Summer 2024 opportunities. For those of you who are slow at mental math, I'll spare you, that's 16 months away! How are young, motivated students to enjoy what is supposed to be the most care-free years of their lives, when they are in a constant race to grow up?

So as January ends, I've decided that for the next while my only real goal is to be more present. To take my eyes off what's ahead and focus on what's in front of me.

Maybe my goal doesn't resonate with you, and that's perfectly ok. It shouldn't. It's mine. If you want to create your own "mantra" I encourage

you to think about how you want to feel in 2023 and let that guide you through the next 11 months.

Don't @ Me

The Negative Connotations of Social Meida

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In a world full of infinite visual stimuli available at the tap of an icon, how can one truly learn to create and think independently to a solitary sense of identity? Social media

is the killer of independent thought and personal development. While this statement may come across as an overreaction, I believe it is valid, a harsh reality. Throughout my first semester at Dalhousie University, I grew concerned regarding my self-discipline and confidence transitioning into this new self-sustaining lifestyle. To succeed at university and achieve my personal career goals, I had to undergo some changes; one being my personal use of social media platforms such as Instagram, Snapchat, and TikTok. I felt as though the trio was responsible for many of my shortcomings regarding attention span, confidence, and time management. My social media purge journey had begun, and I wanted to commence this occasion with the depletion of my worst enemy, TikTok.

Chinese company ByteDance's popular video-sharing app TikTok has grown exponentially since its release in 2016. Almost everyone has the application downloaded, and anybody who hasn't been living under a rock for the past few years has some idea of what TikTok is. TikTok is a plethora of dopamine-arousing video clips personalised to each user, and its curation of video sequences is extremely intentional to keep you scrolling. Unsurprisingly, a quick look through TikTok's history raises some real red flags from accusations of keylogging to their 92-million-dollar settlement for harvesting data from users including the use of facial recognition software. As someone who already has a short attention span pertaining to my engagement in certain activities and events, TikTok's cons heavily outweigh its pros. Next on the list was Instagram. Its issues are almost identical to TikTok, an infinite scroll media app tailored to each user. Aside from a shortened attention span and privacy violations, my biggest issue with Instagram consists of constant comparison, it's a game of likes and followers where everyone shares the very best parts of their lives. I felt as though this comparative mindset was terrible for developing my own self-confidence. Thus, I removed myself from the network and deleted the app. Finally, it was time to get rid of the lesser of three evils, Snapchat. The removal of Snapchat came 3 months after TikTok and Instagram, when I started to realise some of the benefits I had been experiencing. I noticed I was left with much more time in my days, and my attention span had increased substantially.

I did not need to send photos of myself to others on a daily basis, and I felt messages were more than sufficient for staying in contact with friends. Snapchat was the most difficult to transition away from, because none of my friends used messages to communicate. Although I noticed after transitioning, my conversations with my friends held more substance, lasted longer, and brought us closer than before. Today, I have noticed major improvements in my mental health. Some examples include my improved ability to get mundane tasks like laundry or dishes done, I feel more engaged in conversations with others and I am much less anxious in uncomfortable situations. Although those examples were most prevalent, the list of benefits I could compile would amount to hundreds. Maybe it is time we re-evaluate what we all believe to be normal and take a chance at life without the draining effects of social media platforms. Perhaps this isn't the future previous generations worked so hard to accomplish.

The India Opportunity

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Given that this was my first chance to write for The Schooner, the essay had to be ideal. Originally, I had intended to write something on one of the hot topics in the financial news: the current status of the American economy; looming fears of financial crisis; the effects of human-induced climate change and how they have changed corporate policy making; or maybe what I think business will look like during the decade following the Pandemic. Consistently, I tore up my attempted articles for nothing was satisfying my hopes for my first Schooner submission. On the last day of submission I had an epiphany...

In September, when I moved to Halifax from India to start school, I bought an iPhone as a way of treating myself for beginning a significant new chapter of my life. (I also had dropped my previous phone in the toilet.) While getting to learn the ins and outs of my new device, I noticed a small tag -- perhaps on the box or user manual -- which said my iPhone had been manufactured in India. Excited by the fact that I had been manufactured in the same place, I figured what better topic to dedicate this article to than India, especially since its economy -- as you will learn -- provides a ray of hope in an otherwise gloomy global economy.

In a recent survey from The Economist, India was found to be at little risk of being affected by a global recession. In fact, it was found that India might be the country most capable of boosting the global economy should such events transpire, particularly as powerhouse economies from China to Germany deal with prolonged sluggish growth. By contrast, sluggish growth could not be further from the Indian example: India is currently the fastest growing of the largest economies, both in terms of GDP and population growth. The latter fact, that is a rapidly growing population, is what makes the investment case for India so enticing.

Specifically, India's large working-age, English-speaking population makes the domestic business environment ripe for new opportunities, and is why India ranked second on the Resilience Index (PDH Chamber of Commerce and Industry). Experts also see the government's investment in public facing infrastructure during the pandemic to have dramatically improved already vast stocks of food, energy, and shelter, conveniently positioning India to build-out public infrastructure at a time when the average citizen breaches the inflection point of the global middle class. Indeed, some of this opportunity has been realized and priced into Indian markets, which has caused significant inflationary pressures. However, unlike other nations who are currently tasked with high inflation India's inflation is being countered by high returns on investments in infrastructure, financials, and technology.

Perhaps, these are the reasons why Ernst and Young estimates the Indian economy will reach a GDP of US $26 trillion by 2047. For some perspective, this would put the Indian economy on par with the US and China, albeit within the first 100 years of its independence. Turning to India's hottest regional interest: Bangalore, often labeled the "Silicon Valley of India", is currently producing more companies than its namesake. In 2022, one out of ten tech unicorns was headquartered there. But India's growth is by no means limited to one local, which becomes evidently clear when looking at the shrinking variation between Tier 1 and Tier 4 cities. While it is the case that Tier 1 cities account for the majority of growth and consumption, Tier 4 cities have seen an increase to these figures by 22–23%. This is driven by the spillover of the digital revolution in major hubs. Moreover, unlike other debt-ridden nations whose private sector growth tends to yield debt to equity ratios of 1.5-2%, India is grieving growth at D/E of approximately 0.5.

Big US financial institutions are turned on by this number, with Morgan Stanley analysts Ridham Desai and Girish Acchipalia finding that "India has the conditions in place for an economic boom fueled by offshoring, investment, manufacturing, the energy transition, and the country's advanced digital infrastructure."

Geopolitics serves as another important component for Indian success, and right now, all of the geopolitical stars are aligned for India. Namely, tensions between the US and China threaten to decouple the prevailing paradigms for accessing cheap international labour, and this results in businesses looking to move operations to countries like India, Vietnam, Mexico, and elsewhere. By adopting a "China-plus-one" strategy, India will stand to gain significantly. Moreover, India's one-year long presidential term at the G-20 has furthered its capacity to position itself as the "bridge between east and west, and north and south," (Kenneth Juster, a former US ambassador to India).

It would, however, be disingenuous to paint an Indian story that is devoid of criticisms, challenges, and the like. It should not be ignored that India still faces significant obstacles due to its prevailing and extensive legacy, or caste system. Despite GDP growth surpassing the US$3 trillion (World Bank) mark, India's GDP per capita remains low at US$ 2256.6 (World Bank). This number is a serious concern, particularly because as the nation develops, inequality widens at the margins -- rich Indians are getting a lot richer than poor and middle class Indians. Inequality also manifests across gender too: according to federal government data, the participation of women in the workforce is still barely 25%, one of the lowest rates among growing nations. Crucially -- indeed more for Indian policymakers than for my readers -- Bloomberg understands that if the gender difference between men and women were to narrow by 58 percentage points by 2050, India's GDP would increase by more than 30%.

Unfortunately, because India is the world's largest democracy, government initiatives and attempts to improve these situations take longer to adjudicate and implement. But they are improving, and the corporate elite in India and elsewhere are optimistic. If properly managed, India's systemic faults can be considered as enormous growth possibilities, and sooner rather than later, we'll witness the emergence of a new global hegemon. It is a question of "when" not "if."

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Keeping it Real

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Over the past two months, the streets of Brasilia have been crowded by thousands of outraged citizens, draped in green, yellow, and blue, over the recent presidential election results. Previous President Jair Bolsonaro was overtaken by former 2003-2010 President Lula Silva by the slim margin of 50.9% to 48.1%. Rumors of electoral fraud quickly spread, and when the citizens got hold of it, the city erupted into complete anarchy, taking over the Congress, Supreme Court, and presidential palace.

The outcome of the riots and fears of an unstable political system have created a lot of uncertainty in Brazil. After a dive into Brazil's fiscal policy, monetary policy, international trade, and rumors of an impractical common currency, the country's economic outlook looks weak going into 2023, and their currency (the Brazilian Real) will not get off easy. The Real, which over the month of January soared to R$5.48, has since been brought back down to a current low of R$5.07 (paired against the dollar), but could see an increase back to around R$5.75 by the end of this year.

Lula's Big Pockets: Lula da Silva's recent victory in 2022 has shaken up the Brazilian economy. How Lula plans to use fiscal policy to strengthen the economy will play a large role in determining where the country's currency moves next. Following Lula's first speech to his country, it was revealed that he plans to increase the size of welfare programs far beyond the budgeted government spending cap, similar to what he did in 2003 that helped lift millions of Brazilians out of poverty. Greater spending causes fears of Brazil's debt levels and may stir inflation, which the country has been fighting hard to keep low. Unemployment in Brazil is currently 8.2% and on a steep decline.

If unemployment reaches stable levels around 3-5%, then the country would be at full employment (a tight labor market). Adding stimulus to an efficient workforce, receiving full wages, would create excess money, and inflation would set in. All together, this gives the impression of a negative outlook on the growth of Brazil going into 2023. With economic growth forecasts reporting under 1%, and unstable debt levels, investors will likely begin to pull their money out of the Brazilian economy, and a drop in the Real will follow.

Rate Hikes and Inflation: Brazil has been no different from the rest of the economies running hot with high inflation, but Brazil's Central Bank (BCB) has been extremely aggressive in trying to put out the fire. Brazil's inflation hit highs of 12.13% in April 2022, which after 12 consecutive rate hikes brought the Selic rate (Brazil's policy rate) to 13.75%. This settled down inflation to 5.9%, but it's still far away from the 3.25% target, which is starting to seem unreasonable. Lula's excessive spending could keep inflation from ever meeting the 3% level. If inflation were to stay high, the country would face capital flight (the outflow of capital from a country when prices are too high). Selling Brazilian goods requires the buyer to trade in terms of the Real. If buyers choose to search elsewhere for less inflated goods, investment in the Real would lower, weakening the currency. (For a more in-depth review of the effect of interest rates on currency, refer to my November publish on an overview of the US dollar.)

Exports and China: Another factor affecting the strength of the Brazilian Real is exports. Surging commodity prices and increasing global demand boosted Brazil's exports during the pandemic. However, concerns about a weaker global economy, a potential recession, and high interest rates have led to slower growth, lower demand for commodities, and decreased demand for Brazil's exports, mainly iron ore, crude petroleum, and soybeans, which are showing signs of declining prices. A possible bright spot for Brazil is China's reopening. China is Brazil's largest export market, accounting for over a quarter of the country's goods, mainly crude petroleum and soybeans. After a difficult year for China, the country is expected to recover in 2023, which could support demand for Brazil's exports and increase the value of its main goods. Iron ore was another major export from Brazil to China that was not mentioned. China used to demand a large amount of iron to support its growing property sector.

However, after discovering a lot of fraud, the decline in the property construction market has reduced the demand for iron exports to China and had a major impact on Brazil. The decline in commodity prices and the loss of the iron stream show that China alone cannot save Brazil's declining exports.

Argentina and Brazil: Brazil and Argentina are discussing the possibility of a common South American currency, reminiscent of the 1980s. The currency would not replace the Real or the Argentine Peso but would be used in clearinghouses to facilitate trade and reduce dependence on the dollar. However, the two countries face different economic challenges, including inflation and interest rates, and a small portion of each country's total trade is allocated between them. This idea does not seem feasible as it would not provide much value for Brazil and is unlikely to materialize.

The Brazilian economy is showing signs of weakness for 2023, despite strong economic indicators in 2022 that help the Real climb down against the Dollar. Political instability, rising inflation, and weakened terms of trade due to a heavy reliance on commodity exports are causing concerns. The central bank has been ahead of the curve raising interest rates, but this may not be enough to save the economy or the Brazilian Real in the year to come.

Will the Fall of Quadriga CX Prevent a Future FTX?

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It has been a few months since the crypto exchange FTX filed for bankruptcy in the U.S., along with 130 affiliated companies, including Alameda Research, FTX.us, and many other subsidiaries. A few days before the bankruptcy, the company's value went from a $32B valuation to insolvency as liquidity dried up. Although the plummet of cryptocurrency price during 2022 plays a significant role in FTX liquidity trouble, the FTX's misleading and fraudulent activities are the main reason for its collapse. Thousands of people lost money with the company's downfall, and Canadian investors can sigh in relief knowing that local regulators denied FTX's attempt to enter Canada in June of 2022.

Over the last year, FTX has made several attempts to enter the Canadian markets, with growing demand inside the country for the crypto market. FTX partnered with many crypto operators inside the country behind closed doors, providing service to Canadians. But the Ontario Securities Commission (OSC) quickly halted that, stopping FTX and others from any activities relating to the sale of crypto assets and derivatives to retail investors until the exchange is properly registered with the provincial regulators. FTX attempted to circumvent these restrictions by acquiring a Calgary-based crypto platform, Bitvo Inc., but luckily, the deal has yet to go through. Although many thousand Canadians are using foreign crypto platforms like FTX through VPN, the majority are using the regulated platform, which can be. considered less risky than exchanges such as FTX.

Canada is one of the countries that imposed the most regulations on the crypto industry. Under Canadian Security Laws, any crypto platform or exchange that is accessible to Canadian customers will be regarded as a Canadian operation to impose securities regulations.

Hence, it would have to adhere to the strict rules we have here in Canada. In March 2021, the OSC announced that any crypto asset trading platform offering derivatives or security services must comply with Ontario securities law. And now, in the aftermath of FTX's collapse, the Canadian Securities Administrators (CSA) has mobilized to put in united regulations from coast to coast relating to crypto platforms. Among these rules are requirements regarding clients' deposits; or assets that must be held segregated from the platform's proprietary business. Canadian Securities Commissions across the country, led by the OSC, also have many rules against the free "spend, trade or use" of the platform asset at will by executives. Most of these robust schemes that imposed heavy monitors and regulations on crypto exchange went into effect after the fall of Quadriga CX in 2019, in which its founder used customer deposits as his own cash, losing over $169 million from clients. The Quadriga CX incident was a mini-FTX for Canadian regulators to reassess the industry. Learning from that event, Ontario regulators and a few other provinces began requiring trading platforms for safeguarding standards. For example, the company must maintain 80% of customer assets in "cold storage", and cannot be lent or collateralized, limiting the firm's risk to 20%. Firms are also required to do a pre-registration undertaking (PRU) while the legislation approves their application to become recognized security dealers.

There is a growing appetite for crypto assets in Canada, with a recent OSC survey showing 30 percent of Canadians planned to invest in crypto products over the next 12 months, even though most who responded also lacked working knowledge of the practical and legal regulations regarding owning crypto. Although more regulations on the crypto exchange could go against the purpose of cryptocurrency, these are much-needed steps to protect Canadian investors from future calamity. As well, from our mini-FTX incident, Canadian Securities law has been strengthened to give investors peace of mind when it comes to investing in cryptocurrency (for now).

AI's Future in Finance

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With several significant applications in finance, artificial intelligence (AI) is set to transform the financial environment – in many ways, it already has AI based fraud detection systems can identify fraudulent activity more quickly and accurately than people, and AI powered trading algorithms can evaluate enormous volumes of data and make split-second choices that often outperform humans. Aside from detecting possible fraud, identifying high-risk clients or investments, and predicting market trends, AI is also used to reduce risk by analyzing vast volumes of data to find patterns and make predictions about potential dangers including cyber threats.

The financial industry is undergoing a fundamental change as a result of the use of artificial intelligence (AI). The use of AI driven algorithms to process and analyze enormous datasets in order to find patterns and forecast changes in market conditions is one of the most common use-cases of AI in market trading. The capacity of AI driven trading algorithms to react to and learn from past market data is one of its primary differentiators. In most applications the algorithm can increase the accuracy of its predictions over time thanks to a process known as machine learning. Additionally, compared to conventional human based trading, the implementation of AI driven algorithms enables trading at a significantly faster rate. In extremely volatile environments where speed is of the essence like someone trading currency or commodities, this is incredibly valuable. Furthermore, institutional investors like hedge funds and investment banks have benefited from the use of AI driven trading algorithms; they can use them to help predict corrections in supply and demand imbalances, forecast market movements, make tactical asset allocation decisions, and analyze large amounts of data. These institutions are better equipped to manage risk and optimize their portfolios as a result of having access to more data and making more educated investment decisions that have minimal human bias.

AI has the ability to analyze enormous volumes of data and spot trends that might point to possible dangers, including credit risk and changes in market conditions. AI continually learns and adapts to new data via machine learning algorithms, which enables it to identify threats more precisely and incredibly fast. The analysis of credit risk using AI is one instance of this. Massive volumes of data, including financial records and credit histories, may be analyzed using AI to spot possible credit hazards. This can help a firm lower the risk of defaults by getting a better understanding of their client as well as assist financial organizations in making better loan selections.

AI helps financial institutions to take action to protect their assets by alerting them in advance of imminent market instability. AI may also be used to monitor and control operational risk. By utilizing machine learning algorithms to find patterns of fraudulent conduct, it can even be utilized to discover and disrupt fraud. By automating compliance procedures, it may also be utilized to make sure that laws and regulations are being followed.

Arguably, the most important application of AI is its ability to identify and prevent cyber threats. Large volumes of network data, including traffic logs and system event logs, are analyzed in order to do this using machine learning

methods. These algorithms may be trained to identify the regular patterns of network activity, and they can then utilize this knowledge to spot any abnormalities or strange patterns that can point to a possible cyber attack.

The possibility for job displacement is one of the largest ethical issues with AI and its implementation. AI powered systems have the potential to replace many human tasks as AI develops and grows more sophisticated. Job titles like Financial Analysts, and even certain managerial roles may fall under this category in the financial ecosystem. AI's potential to displace jobs is a serious issue because it might result in widespread unemployment and economic turmoil especially as it is implemented in other white collar positions. For instance, the financial sector may experience a considerable number of job losses if trading algorithms take the position of human traders at major firms. This can affect the entire economy since it might be difficult for those employees to find new jobs and reduce career opportunities for those who are studying finance.

Additionally, the increasing automation of financial jobs could lead to a loss of human judgment and creativity. AI powered systems, while highly efficient and accurate, may lack the ability to think outside the box and come up with new and innovative solutions. This crucial part could be overlooked by corporations as they are impressed by the benefits of AI without accounting for the loss of human qualitative skills. It's important that financial institutions and governments recognize the potential impact of AI on employment. It is very likely that the future of AI in finance will become only as powerful as the government policy or company's ethics allow it to be. It's critical that leaders make sure that the creation and implementation of AI is done in an ethical and responsible manner, considering any potential negative effects it may have.

In all of these ways, AI is revolutionizing the finance industry, with applications in trading, fraud detection and risk management, among others. The use of AI driven algorithms in trading has led to improved performance and faster decision making, while AI based fraud detection systems have increased efficiency and accuracy. Additionally, AI is also being used to improve risk management by identifying potential risks and making more informed decisions. However, it's crucial that financial institutions and governments also consider the potential impact of job displacement; the loss of human qualitative skills and creativity will have a major impact as AI systems become more advanced. Proactive steps such as retraining programs and ethical deployment of AI systems can help mitigate these negative effects and ensure that the immense benefits of AI in finance can be fully realized without significant job displacement.

Conclusion

At this point of my article, it is important for me to come clear: in no way are the above words mine in any way. In fact, they are the words of an AI, ChatGPT to be more specific. Crucially, I did not use this software to make writing my contribution this month easier or to make it sound more put together. Rather, it seemed like a straightforward way to drive home the level of sophistication AI has achieved. And to be clear, ChatGPT is not a particularly advanced application. I hope that I am not the only person who this entirely blows away. Within seconds of asking ChatGPT to "write an article on AI," the ironically comprehensive personal essay which you just read had been typed and edited. Without being overly dramatic, these results forced me to dramatically rethink my world vision and have sent me down a rabbit hole of research. Above all, I used ChatGPT to spare you the time of diving into AI in the hopes that its product will lead you – absent of deep contemplation – to envisage the human tasks that AI will displaceI would venture to say that being conscious of some potential impacts, particularly to technical fields, is crucial for anyone who hopes to effectively position themselves for the workplace of the near future, especially in finance.

French Pensions: Too Big to Succeed?

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The chill of winter has descended upon France, but it has not deterred over 1.2 million citizens from taking to the

streets in protest, sending a clear message of discontent to President Macron's proposed pension reforms. The recent protests' massive turnout, a coordinated effort from France's eight largest labour unions, demonstrates the French workforce's strong opposition to the government's pension plan.

In recent French history, politicians have made multiple attempts to reform the pensions system, including notable efforts from President Sarkosky and Macron's previous crack at success. All of which have sparked similar widespread protests and strikes, leading to the eventual abandonment of any proposed changes. The repeated failure of these reforms, along with 2023 so far, highlights the contentious and complex nature of attitudes toward pension policies in France.

Currently, France's public spending is the highest in Europe, at around 60% of their GDP. Of this statistic, pension spending takes up about 14% of GDP. Therefore, it is no surprise that economists and politicians have come to the consistent conclusion: France's pension plan is generous, unaffordable, and unsustainable. The French pension plan allows the French to stop working much earlier than other nations. Under the status quo, a full pension can begin at the minimum age of 62, so long as contributions have been paid for 42 years. President Emmanuel Macron has set his sights on transforming the pension system to enhance France's financial stability and secure its economic future. With a growing public debt and a decreasing working-age population, reform has become imperative to maintain a healthy economy. The current system, which allows for lengthy retirement benefits relative to the time spent contributing, is unsustainable in the long term. The proposed reform causing the uproar is less than radical. Macron has proposed a 2-year increase to the minimum retirement age, from 62 to 64, and a one-year increase from 42 to 43 required years of contribution. This proposal remains generous by international standards but can eliminate the pension deficit by 2030. However, one of the main reasons the French population and unions oppose the change is how it disproportionally affects workers from a lower-class background who started working younger. Some workers are simply unhappy with the concept of longer working years and the impact on their quality of life. Additionally, there is a widespread perception that the reforms are being pushed too quickly and without sufficient consultation with workers and unions.

The effects of the protests have already become noticeable in France, and it will be interesting to see how the situation unfolds. One of the most significant disruptions has been in transportation: Airlines have cut flights, high-speed trains have been cancelled, regional transport has been operating at slim fractions, and the metro lines have been in operation exclusively during rush hour. In recent surveys, more than two-thirds of French citizens support the protests and strike, indicating that the effects might be longer than expected, potentially dragging out for several weeks or more.

The effects of the strikes have extended to various industries, including the energy sector. Electricite de France was hit with a staff walkout, which led to a decrease of 12% in the country's nuclear output. This disruption also affected the delivery of fuels from three oil refineries run by TotalEnergies SE and caused hindrances in fuel loading at Exxon Mobil's Fos refinery. Clearly current strikes have come at a crucial time, just two and a half weeks before a European Union ban on fuel imports from Russia, its largest external diesel supplier. Total and Exxon Mobil, which account for a significant portion of French fuel production must face disruptions from the protests over pensions, with the unions threatening to escalate their actions beyond oil refining. Despite the disruptions, TotalEnergies stated it will continue to serve its clients and fueling stations. Moreover, The CGT energy branch has expressed a willingness to engage in further discussions with the striking workers, which may include implementing initiatives such as providing complimentary energy, executing targeted power outages, or implementing strategies that could negatively impact the functioning of LNG terminals and gas storage facilities.

Historically, labor strikes in France have had a significant impact on the country's economy, as well as on investor sentiment and market performance. A prolonged strike can disrupt economic activity, reduce production and exports, and pressure the central bank to raise interest rates. It could also lead to supply chain disruptions, increased costs for goods and services, and potentially slow economic growth. Investors may react to news of the strike by selling off stocks, causing market fluctuations, or becoming more cautious and avoiding investment in the affected country or industries.

As the protests continue, it will be interesting to observe how the markets respond to the situation. It is possible that the protests could result in uncertainty and volatility in the financial markets, as investors weigh the potential implications of the reforms on the economy and the stability of the country. On the other hand, if the reforms are successfully implemented, it could signal a step towards a more sustainable and unified pension system in France, which could boost investor confidence and stability in the long run.

Who Doesn't Use Netflix

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Subscription-Based streaming has a case as possibly the most innovative industry of the 20th century. Led by streaming giant Netflix, some of the biggest companies in the world have used their name to pivot into the space and compete with the mid 2000s trailblazer. The industry that was once was just a few guys shipping DVDs around the U.S. from their basement has transformed into hundreds of companies fighting for market share with majority of leaders being notable pre-existing large cap companies. Amazon, Hulu, Disney, and Apple are four of the biggest players who try and add subscribers' quarter after quarter.

A unique component in the industry is there are no comparatives to Netflix in the sense that all major competitors operate majority of their business through other revenue streams aside from their streaming. Apple TV plus and Amazon Prime Video are extensions of two of the biggest tech companies in the world. Disney Plus has made subscribers out of their loyal fans by utilizing their rights to hundreds of Disney originals on their platform. Lastly, Hulu is a private company in the space that rakes in over 10 billion in revenue annually, and is majority owned by the Walt Disney Company who plans to fully acquire the company in 2024.

Netflix is the only large cap streaming service that acts independently without parent majority ownership. Netflix's individuality and sheer size draws investors' attention when analyzing subscription streaming. Amazon, Apple, and Disney each have most of their exposure in operations aside from streaming, making stock price valuation between competitors more challenging. Netflix stock was down 14% in 2022, whereas Amazon and Disney we're down 31% and 24% respectively. Netflix's industry standing created a new metric that investors analyze in the streaming sector known as, subscriber addition. Subscriber addition is an unofficial growth metric that is unique to subscription-based streaming and links directly to revenue. Often, it is what draws investors' attention on an earnings report before EPS and revenue.

Netflix's 2022 wrapped saw their stock price fall over 50% in the first half of the year even as they beat EPS and matched revenue in both early reports. Subscriber Addition misses we're behind the slide as many believed Netflix's downfall could begin once they start failing to increase subscribers as consumer grow tired of paying multiple subscription fees on multiple platforms. In the second half of the year share price rebounded and is up 105% entering 2023 since the 2022 low with subscriber addition beating analyst expectations in those final two quarters. Netflix's volatility and reliance on the new metric was on display all of 2022. In early November the company then introduced a new model on the platform that includes ads for a new subscriber option on the platform, the market immediately jumped to the conclusion that subscribers do not want ads and the introduction would cause a mass exit of consumers. The share price was forced down for a very quick 9 hours, until investors finally opened their eyes to the billions in revenue the new addition will generate. Not to mention an increase in a new demographic of subscribers also joining the platform because of the lower cost. Successful competitors have been utilizing advertisers for years, amounting to billions in ad revenue in addition to subscriber revenue and Netflix stock price acted as if this wasn't true for about 24 hours beginning on November 3rd dropping 7% before rebounding over 20% from that November low only 5 days later.

Understanding Netflix's nose for volatility, the Financials, Consumer, and Tech portfolio here at Dalis wanted to make a trade before the Q4 earnings report playing on what we expected to be intense volatility one way or another on Friday the 20th . Expected was 4.5 million subscriber additions, Q4 revenue at over 7.8 billion, and EPS was sought to be around $1.37. We placed a trade to play on the volatility, implementing a long straddle that entails buying calls and puts at the same strike with the same expiry. The strategy enabled the group to profit no matter which way the stock moved outside a specific price point. The trade profited the group roughly 25% in

two days on the trade. Aside from Netflix's stock price closing at over an 8% gain on Friday the 20th, Disney and Amazon again proved their relation and partial reliance on streaming as their stock prices rallied Friday on the good news from Netflix moving in the green 4.5% and 3.8% respectively.

With Netflix entering 2023 on a positive note, an eventful year is on the horizon for the subscription streaming industry. The company is extremely bullish on the new ad tier model and expects long term ads to provide at least 10% of revenue (Over 3 billion), with Amazon doing 10 billion on ads in their September quarter alone I think this is far from an ambitious expectation. Notably Amazon and Apple report on February 2nd, with Disney on Feb 8th we can expect Netflix share price to follow closely in stride based on the information released from these giants about their subscription-based streaming numbers.

Rick's Rant: Why I Like DALIS Activities

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Big, sober, aged, curated, deep intellectual thoughts. Yup, that is supposed to be my life. After all, I am an academic – with extra letters behind my name and a professional designation to boot! What possible benefit is there for me to deal with a bunch of tweenstwenties (new word that I am going to patent, or better yet register as a NFT) who are just starting on a career path in finance that I wore out over thirty years ago? After all, time spent on extracurricular activities that will not directly lead to peer-reviewed publications is considered a waste of time by many of the big shots at many universities.(Fortunately, the Rowe School of Business has some more enlightened administrators who acknowledge that students are a very important part of what we do and why we do it.)

When you get to a certain age – one where each year is less than two percent of your existing life, you start to look back at things differently. You also start to forget. Conversely, when you are a young duckling, and each new year is five percent or more of your life (at this point we pause so some alumni can find their calculators and do some figuring), you spend a lot of time and energy trying to think and act beyond your age (or at least in all professional contexts). In this social media savvy age, it seems that only 6 year old princesses, or those newly of legal age are actually interested in truth telling when it comes to age.

Now, where was I? Oh yeah … when you get to a certain age you start to look back. Old people suck at history, or at least their own personal history. The fish they caught (or did not catch) 50 years ago keep getting bigger and the walk to and from school gets steeper (both ways!) and longer with each candle on the cake. The one thing that us in the more age advanced category, (sorry, did not have time to ask my woke children what politically correct term is acceptable to use this week for us senior citizens), however always remember accurately and with passion is our first real day of work. The energy, the nerves, the excitement, the prospects, the hopes – it still remains a heady soup of emotions.

Occasionally I have a need to take the train from the burbs of New Jersey into New York city.(You really need to read that previous sentence aloud with the regionally appropriate accents.) Whenever I do take the commuter train into NYC, it evokes memories that are oh so powerful and energizing (and truthfully conjure a recollection of being terrified). On top of the cheaper hotel rates in Naw Gerry See, (for those of you who did not understand the need to read the previous sentence aloud) a benefit of staying in the Garden State is the commuter train ride emotional thrills that make the old bald fat guy in desperate need of a haircut turn into that twenty-something slim, trim and impeccably groomed newly minted MBA / PhD. I so clearly remember the commuter ride my first day of work. Recreating it is a bit disorienting as I actually start to feel like I am twenty something again (and then I stand up to exit the train and my knee creaks).

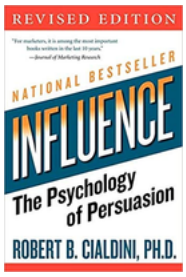
While we are in school, we spend so much time trying to act like old, seasoned professionals, (well, there are exceptions to this that have been noted at certain establishments of refreshment). Career service experts tell us how to dress, stand, walk and ask meaningful questions that illustrate our potential value proposition to each prospective employer. Heck, we may even delete some of those social media pics taken at aforementioned refreshment establishments that we posted in moments of youthful energy dispensation. The perceived need to act mature and respectable is enough to turn one into a prop for a photoshoot for Board Members from the 1950s.

Then we start our career and we are oh so eager to shed the image, look and label of “rookie” or “newbie”. Again, we transform ourselves to be old in mind, spirit and song. (I think I mixed metaphors there, but blame it on my age and rusty brain.)The need to fit in professionally (to say nothing of the need to fit in socially) is immense, smothering, and exhausting.

What happened to the 6 year old who was going to be a fire-fighter, or a model, or a cookie chef? What happened to the 12 year old who was going to set new sports records or be a doctor or a dinosaur anthropologist? (Okay, I will admit it, I had to rely on Spellchecker to get anthropologist.) What happened to the 16 year old who was going to … (okay, the rest of this sentence is likely not going to make the editor’s cut).

Why can we not just put aside preconceived notions about how to think, what to wear, and how to sound intelligent about economics (yup – pushing it to the limit of rationality here with sounding intelligent about economics) and just try things, learn things, break things and discover things. When was the last time you let loose that 6 year old, or the 12 year old that you know you still have in you? (The 16 year old is probably best kept locked in a cage.)

When was the last time you tried something that a younger you always wanted to try (like getting a rant with at least one annoying parenthetical phrase in each paragraph past the editor)?What are you doing to get goose bumps from something as mundane as a commuter train ride? It is time to think young and learn from the next generation my friends.



Book Review: Influence - *The Psychology of Persuasion*

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Oftentimes, the conversation between individuals fond of and involved with the investment world get caught up in the technicalities of knowing the ins and outs of comp models, bragging about Excel abilities, and preaching poetic thoughts – indeed, often inaccurate – on the direction of markets. This highbrow gossip often leads investment professionals to forget one of the most critical aspects of business: the art of sales. After all, at the root of any transaction are a buyer and a seller. Sales are the key motif in Dr. Robert B. Cialdini's Influence – The Psychology of Persuasion, an in-depth analysis on various human behaviors that influence people to give the "greenlight, the "f*ck yeah, where do I sign?". In other words, Cialdini outlines how to get buyers to give the mouthwatering affirmation: "Yes. I want that". Here, I feel it is important to note that in no way does this book only give value to someone who hopes to make a career as a salesperson. It seems straightforward that in most walks of professional life, negotiation -- particularly as negotiation relates to convincing someone to adopt your position -- is an important skill, and Cialdini's book makes this characteristically clear. On a different note, if you have ever found yourself at a fast-food restaurant wondering how you ended up with bacon on your burger, the upgraded gravy fries, and a coke when all you asked for was a lonesome hamburger, it might be worth the read. However, I will leave this example unqualified in the hopes that understanding it ignites a desire for Cialdini's explanation.

Throughout Influence, Cialdini highlights the importance of the "Click, whirr" concept, the tick that makes us conform to terms without a second thought. No thinking needed, "Click, whirr", preform. A tool that is both extremely helpful but also detrimental in our decision-making process. The power hierarchy in medical establishments is a highlighted victim of the "Click, whirr" theory. Doctors hold so much authority over their lower-ranking coworkers it often goes unquestioned when clear errors occur because nurses perform the "Click, whirr" response when given commands.

Take for example, the story of a physician who ordered ear drops to treat an infection in the right ear of a patient. On the prescription, he wrote, "Administer in R ear". The nurse proceeded to place ear drops in the patient's anus. Understanding the "Click's" power and usage is one of the many brilliant lessons from Influence that can permit us to make higher caliber decisions and apply it in situations to persuade others.

The goal of learning the weapons of influence is not to become some magical man who can make individuals agree to obscure terms like putting eardrops in someone's anus. Instead, to be aware of when we fall victim to them, and on the other hand, ethically maximize their utilization.

Now, how can your big brain apply this knowledge on your life as someone who has no interest in becoming a sleazy car salesman? Let me explain. The next time you find yourself wondering why the outcome of a conversation with professors over changing a final mark or closing your first client as a financial advisor yielded unfavorable results, i.e. "no," you're going to realize – albeit after reading Influence -- that we are all salespeople, and we sell ourselves. Being able to do so better is only in our favor.

Influence - The Psychology of Persuasion, deserves 4.5 boats out of 5!

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