Assignment — Effect of interest rate change on stock price

Purpose

We already have a financial portfolio constructed. Now it is time to see how macroeconomic factors effect our stock prices and portfolio value. There are several variables that effect stock prices. We will assume and isolate the effect of interest rates and keep all else constant. We will simply try to answer the following question: Given that we expect interest rates to decrease how do we expect our portfolio value to react to this expectation?

Preliminary points

Please review the following resources before completing this assignment.

- Basic terminology: http://researchata.com/?tag=basic-terminology
- Risk and return: http://researchata.com/?p=283
- Security pricing: http://researchata.com/?p=356
- Relative pricing: PE: http://researchata.com/?p=336
- **Effect of interest rate change on stock price** https://youtu.be/42bUDNt_Xmw

What we need

We need a spreadsheet to calculate the expected value of our constructed financial portfolio. We also need to find the current P/E for the stocks included in our portfolio. I find http://finance.yahoo.com and http://nasdaq.com to be useful. However, any website that provides the P/E values for publicly traded companies would do.

What to do?

You have three different individual stocks in your constructed portfolio. Assume that the FED cuts the interest rate by 0.25% unexpectedly. Please calculate the new expected prices for these three stocks. Please note that we are focusing only on the effect of the unexpected interest rate cut and ignoring all other factors macro- or micro-economic.

What to submit?

Please submit, via Blackboard assignment, a spreadsheet (ex. Excel) that includes the following:

- symbols of the three stocks that you included in your weekly portfolio.
- current stock prices for these three stocks
- P/E ratios for these three stocks
- expected prices for these three stocks after the 0.25% interest rate cut (please show your calculation)
- based on number of shares that you included in your portfolio, the impact of the interest rate cut on your portfolio (i.e. how much did you portfolio value went down?)