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Hedgefund Report

For the 20 banks we were given, we first found their price and dividend growth rates (DGR). Since $DGR = \frac{dividend}{price} * 100$, we divided it by 100 to get the projected dividend growth, labeled "Divided (decimal)" in the attached spreadsheet. We then multiplied the dividend decimal by price to estimate the current dividends (Schwab.com). We manipulated the Gordon Growth model equation to solve for ke or the necessary return on investment to get $ke = \frac{Dividend}{Price} - growth$ (Mishkin 143-144).

Therefore we were able to solve for the necessary return on investment with our dividend as a decimal being the growth rate, current price, and current dividend. That is recorded as "Solving for ke" in the spreadsheet. Because dividends are typically given on a quarterly basis we multiplied the necessary return on investment, *ke*, by 4 to get annual dividends (Kennon). This will later be compared to annual interest paid to see which stocks we will purchase.

Since we are borrowing money for these stocks, we will need to solve for the interest paid on each share. If interest is equal to one percent of the price per month, $annual\, interest = price * 0.01 * 12$.

In total, we will be paying for the price of the share and interest. Assuming the price of all these shares will rise, we will make that money back when we sell the shares in a year. In order to not lose money on the interest, we need to make sure the annual dividend is more than the annual interest. With that criteria, we selected 10 banks. We purchased 318 shares in each bank to reach a total investment of $99, 657.13. We chose 318 shares because allowed us to purchase the same number of shares for each stock and invest as much of our $100,000 budget/goal as possible. As you can see we chose to invest in a mutual fund instead of a hedge fund. We chose to do this because the current market is experiencing heightened uncertainty due to the COVID-19 pandemic. Therefore, we are limiting our exposure to risk by choosing not to short stocks. Below ***Table 1.*** *Bank Information of Chosen Stocks* lists the banks we chose to buy stock, the price we paid per share, and the number of shares we purchased.

Table 1. Bank Information of Chosen Stocks

Institution:	Ticker	Last Price (Mar. 26th)	Shares Purchased
Surrey Bancorp	SRYB	12.59	318
Farmers Bankshares	FBVA	15	318
Benchmark Bankshares	BMBN	18.5	318
Bank of South Carolina	BKSC	22.25	318
Kentucky Bancshares	KTYB	37.4	318
ACNB Corp.	FMFG	29.01	318
F & M Bank Corp	FMBM	27.5	318
Virginia National	VABK	31.96	318
Somerset Trust Holding Co.	SOME	41.5	318
Thomasville Bancshares	THVB	62	318

Works Cited:

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Schwab.com. “Dividend Yield and Dividend Growth: Fundamental Value Analytics.” *Schwab Brokerage*, www.schwab.com/resource-center/insights/dividend-yield-and-growth-in-fundamental-analysis.

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