Gambling Sector

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Investment decision: *Did Not Invest*

Introduction:
We chose to look into the gambling sector because of how prevalent gambling is today. It is all over social media, sports broadcasts, and TV commercials. On top of that, we believe the economy will continue to improve rather than enter a recession. Typically, when the economy improves, discretionary spending increases. Furthermore, our research shows that the consumer cyclical sector is doing well, and gambling stocks fall under that. We believe that the combination of gambling prevalence with consumer spending increasing people will spend more on gambling. This spending should lead to strong performance of gambling equities.

Trading Strategy Details:
We decided to create a set of parameters revolving around the gambling industry within the consumer cyclical sector. We also wanted to make sure that we were investing in financially sound companies, so we chose criteria to screen for that. We tested three different screens for this: D/E ratio <= 40%, Profit Margin > 0, and Proft Margin > 0 with Free Cash Flow > 0. All screens were rebalanced quarterly and weighted equally over a ten-year backtesting period. At first, we didn't set a minimum market cap and saw great backtesting performance. However, after closer inspection, we realized that many of these companies had very small market caps with abnormally low stock prices and P/E ratios. We decided to set a minimum market cap of $10M, but, unfortunately, we no longer experienced sufficient returns over our backtesting period.

Backtesting Performance:
When we didn't specify a minimum market cap, all screens resulted in extremely high returns over the ten-year period, but also had high volatility and questionable companies. The only screen that seemed to yield returns greater than the SPY while having a minimum market cap was the criteria with Proft Margin > 0 and Free Cash Flow > 0. However, when looking at the one-year metrics, it was not a good result. The returns were negative, and the risk metrics were scary. Because our investment thesis revolves around the theory that consumer spending has been increasing and will continue to increase with the economy, we decided that this parameter was not a sufficient strategy to invest in at this time. Therefore, we decided to forgo investment in the gambling industry.

Preliminary Research Articles:
https://www.bloomberg.com/opinion/articles/2024-03-28/stock-market-bears-finally-throw-in-the-towel-on-a-hard-landing
https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-state-of-the-us-consumer