Schools Sharemarket Game 2020

Newsletter – What moves markets

What moves markets?

Understanding what makes share prices change can help give you an edge in the game and become a better investor.

A little over two weeks into the game, and we're already starting to see some big market movements – both up and down. Last week, between 31 August and 4 September, Auckland International Airport (ASX:AIA) gained around 9% in just five days. Meanwhile, payment company Afterpay (ASX:APT), after gaining almost 300% in just a few weeks, fell back more than 14% – bad news for anyone in the game with Afterpay shares!

So what causes share price moves like these?

First, there are the broad economic, social and political changes that cause sharemarkets and sectors (groups of companies in the same industry) to rise and fall. Then there are the company-specific changes that can send individual shares into overdrive.

Let's take a closer look at each group.

The broader economy

A whole range of events within the broader economy can cause the market to rise or fall, including:

- economic growth and slowdowns
- instability, like riots, war and pandemics
- interest rates and exchange rates
- inflation
- consumer confidence, which has a big influence on people's spending behaviour
- spikes in prices of critical commodities like oil or iron ore.

While some events move the market as a whole, some sectors or companies are often more sensitive to external events than others. For example, a power company will generally react less strongly to changes in consumer activity than a luxury retailer. Mining stocks can be very sensitive to changes in commodity prices – like Western Australian iron ore miner, Fortescue Metals (ASX:FMG), which has gained around 80% this year after iron ore prices surged.

Of course, one of the biggest external influences right now is COVID-19, which has created both winners and losers. One outstanding example from the US is videoconferencing company

Zoom Communications (NASDAQ:ZM), whose stock price rose more than four times between January 2020 and the start of September. And COVID-19 is also a large part of the reason for Auckland International Airport's rise last week, with investors looking forward to a restart of international travel as things improve.

Game tip understanding the difference between Limit and Market to Limit orders
When you buy or sell shares in the sharemarket game, you can choose between two different order types:

Limit order: you choose the price you want to buy or sell at, and your order will only be filled if shares are available at that price or better. For example, if you place a buy order for 1,000 ANZ shares with a limit of $18.00, it will only be filled when there are shares for sale for $18.00 or less. If there are some shares for sale at $18.00, but less than 1,000, you order will be partially filled, with the rest of the order staying on the market until it can be completed.

Market to Limit order: your order is filled at the current best market price, whatever that is. If there aren't enough shares on the market at that price, we automatically create a second Limit order for the rest of the shares, with the limit equal to the market price used for the first part of the order. For example, if you place a buy order for 1,000 ANZ shares when there are 800 shares for sale at $18.50 and that's the best price, then we will buy the 800 shares for you, then automatically create a Limit order for 200 shares with a limit of $18.50.

Company-specific factors

Just as important are company-specific factors – not only financial performance, but also things like management changes, new products and acquisitions (plans to buy other companies). For example, Afterpay's August share price jump was helped by whole series of announcements, including growth plans in North America and acquisitions in Europe and Asia. Most importantly, during the August earnings season, Afterpay reported a 112% lift in underlying sales and a 103% increase in income.

Yet Afterpay is also an example of how markets can overshoot, and how investor sentiment can quickly change. After rising 300% in the last weeks of August, its share price fell 14% in the first week of September when there was a global pullback in technology stocks, with some investors beginning to feel the sector had climbed too far, too quickly.

Earnings season – Christmas for capitalists

Earnings season, also known as “profit-reporting season” is a prime time for investors looking to find out how a company is performing. ASX-listed companies report their earnings twice a year, usually in August and February.

You can find earnings and other company announcements on the ASX website. Market analysts and large brokerages also produce useful reports to help you make sense of the trends behind the numbers.

Game tip: finding company announcements

To see if a company has recently made an announcement, click Game play > Company list, then look for companies with an asterisk (*) beside the company code. Click on the asterisk to view the latest announcements for the company.

Further reading

- David Harper, Forces That Move Stock Prices, Investopedia.
- Michael Janda, ASX corporate profit reporting season explained, ABC.
- Earnings Season: Companies battle headwinds, CommSec.
- Vesna Poljak and Edmund Tadros, How to see through the 'adjusted' earnings numbers confusing investors, Australian Financial Review
- A Guide to Understanding Annual Reports, CPA Australia

GAME UPDATE

Top 5 syndicates - 10 September 2020:

#	Syndicate	Portfolio value	School	State/Country
1	JesseS	$52,291.43	Waimea College	NZ
2	Carson	$52,283.78	Tranby College	WA
3	Levin	$52,067.07	Balwyn High School	VIC
4	TTV VEGIE_GANG	$51,988.50	Swan Reach Area School	SA
5	Ebony-1	$51,988.50	Nyngan High School	NSW