Description Task 1 You work as a trader for an equity fund. On the first trading day of 2008, you are concerned that your long position (1,000 stocks) in a large company in the U.S equity market is subject to significant downside risks for the year, as some potentially negative news could result in market crashes. However, you have no plans to liquidate your long position until the end of 2008. a) Devise a strategy involving taking long positions in options to help protect your stock holdings from potentially negative market movements. You should describe the key attributes of the options you use and justify your choices. b) Assume you implemented the strategy you devised from part a), calculate the month-end (for every holding months) gains/losses for your position with and without hedging, compared with your initial position at the beginning of the year. Was your hedging strategy an effective one? (Hint: you should evaluate the effectiveness of your hedging strategy once you liquidate your stock position at the end of 2008). c) In early 2008, the popular prediction is that the market will experience a downturn, hence most hedging strategies focus on loss minimisations. Imagine a scenario where prices are extremely volatile, but no one can predict the direction, and you have a long position in stocks. Design two different strategies involving taking long positions in options to minimise losses and capture potential gains. Justify which one is the best. (Hint: you do not need to provide calculations of profit or loss here). Task 2 You act as an external consultant on corporate finance matters for a public company in on the ASX. Assume that is now the end of the 2019 financial year for the company. The board of the client company has asked you to conduct a review of its capital structure. In order to conduct a thorough analysis, you must choose three peer firms that can be used for comparison purposes. a) Identify four most important firm-specific factors that affect capital structure decisions with references to academic sources. Using the last five years of financial statements, calculate these factors and the debt-to-equity ratio of your allocated company and the peer companies. Discuss the differences between your allocated company and the peer companies. b) Are your allocated company’s capital structure decisions consistent with the capital structure theories that you learn from FINC2012? Provide critical reasoning. c) Given the comparison with the peer companies and your theory discussion, make a recommendation to the board of the client company on how to change their capital structure. You need to provide an analysis of market outlook to support your recommendation