

Whether to Invest in Luxury goods based on Risk, Background, and Market

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Abstract. The luxury goods industry, the aviation industry, and the hotel industry all fall into the category of discretionary goods in people's lives. However, in the last 3 years, the spread of Covid-19 has affected all three sectors to a greater or lesser extent. Through the method of comparison, we can intuitively show the differences in the investment of financial stocks in these three industries. LVMH, AAR.Corp and Marriott International are representatives of luxury goods, aerospace, and hotels respectively, among which AAR.Corp is a small-cap stock with more characteristics. Analyse from a risk perspective, risk: LVMH<Marriott International<AAR.Corp. Analyse from a profitability perspective, profitability: AAR.Corp<Marriott International<LVMH. Analyse from a market perspective: value investors will invest in AAR.Corp. PEG investors may invest in Marriott, and LVMH would be on their watch list until its PEG ratio is under 2. Income investors won't invest in these three stocks since their dividend yield is less than 3%. This paper can make investors more clear about the stock market situation of non-essential goods, to help them choose suitable stocks.

Keywords: Luxury goods stocks, invest value analysis, multiple-factor analytics.

1. Introduction

In today's society, the general level of consumption has increased, especially in developed countries, and the demand for luxury goods and services has increased after the problem of food and clothing has been solved. Wang Yang and Anna S. Mattila [1] said in their research that Luxury goods have a big part of share of the global market, many customers can afford the goods due to the notion of mass luxury or through counterfeit products. it seems everything goes well, but then comes a disaster to the whole world, covid-19, During the epidemic, production was hit hard in many countries, people were forced to work at home, and shortages of raw materials in many industries hindered the manufacture of high-end goods, and people stayed at home to protect themselves, leaving the service sector with no place to operate, so luxury goods and services were bound to be hit hard during this difficult period. As Jiali Xie · Chorong Youn [2] said COVID-19 crisis has had an impact on economic and consumer behavior. Consumer confidence and incomes have declined as a result of the negative impact on the economy. At the same time, travel restrictions are affecting travelers' purchases and services. It was a bad period for these companies to go through the crisis.

After reading the stock data, our group has a strong interest in investigating luxury and services companies' stock. So this paper will show our group's project to define whether to invest or not in the end. First, to emphasize the importance of investment, Wells Fargo, the famous bank in the US has its explanation for investment, Investing is an effective way to put money to work and build wealth eventually. The better one can see the truth in the frog, the more money will earn. To manage the investment, Julio Martins and Sandra Alves [3] point out that Serious agency costs and problems of information asymmetry have obvious implications for the relationships among shareholders, managers, and creditors the effects of asset substitution and under-investment become increasingly important. Very often, investors have limited knowledge of the technical aspects of the companies in which they invest. The larger the share of intangible assets, the greater the discretionary power of

management. stock is one of the products to invest in, Prapanna Mondal, Labani Shit, and Saptarsi Goswami [4] have this explanation in their articles about how to invest stock that Stock prices are not randomly generated values, but can be treated as a discrete time series model, the trend of which can be analyzed and thus predicted accordingly. There are several motivations for stock forecasting, one of which is financial gain. A system that can identify which companies are performing well in the dynamic stock market and which are not makes decision-making easier for investors, market, or financial professionals. An excellent knowledge of future stock price performance is of great benefit to investors and financial professionals. Therefore, it is necessary to develop a stock price trend analysis model with relevant information for decision-making. as the development of technology, people can use the analyzer easily, In Lee and Yong Jae Shin [5] said that people can use fin-tech to precisely predict how the stock goes in the future. Technology developers create an enabling environment for fin-tech startups to bring innovative services to market quickly. Big Data analytics can be used to provide unique personalized services to customers, and cloud computing can be leveraged for financially weak fin-tech startups to provide web-based services at a fraction of the cost of in-house infrastructure development. Mobile network operators also provide low-cost infrastructure for fin-tech companies to develop services, such as mobile payments and mobile banking. otherwise, gender can affect the way people invest, Vickie L. Bajtelsmit and Alexandra Bernasek (1996) [6] described in their article that participants' self-reported propensity to take risks in investing provides evidence that women also rate themselves as less risk averse. When asked to choose among four statements about their risk-reward relationship [7-8], 63% of single women and 57% of married women indicated that they did not want to take any financial risk at all (compared to 43% of single men and 41% of married men in the sample).

To analyze the data, this paper uses a method like a forecast risk, profitability, and Market ratio, in detail the Market cap, beta, debt ratio, asset turnover, profit margin, PB, PE, and PEG ratio. These data are all from the official website, Market Watch. The structure of the paper is then a firm description, an analysis of the stocks, and a conclusion at the end.

2. Company Bios

LVMH (Moët Hennessy Louis Vuitton) is the greatest multinational luxury goods company in the world as of today and is Headquartered in Paris, France. The luxury brands Louis Vuitton (established in 1854) and Mot Hennessy (established in 1765) combined to form the business in 1987. LVMH owns 75 well-known brands and approximately 60 subsidiaries.

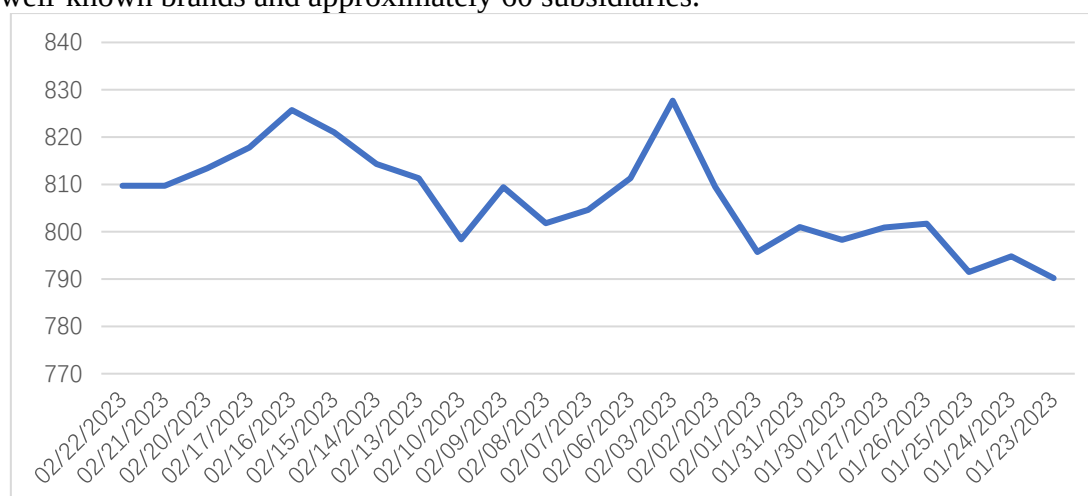


Fig 1. The close price of LVMH

In Fig 1, the total trend increased from 2023.1.23 to 2023.2.23 (30 days). The close price of the in 2023.1.23 is 790.2, then increase slightly, but from 2023.2.1 to 2023.2.3 there is a dramatic increase of 32 dollars. After a large increase, there is a significant decrease from 2023.2.3 to 2023.2.10 by

29.3 dollars. Forms 2023.2.10 to 2023.2.16 illustrate an increasing trend, follow by a decreasing trend in 2023.2.17. From the line graph, the predicted price of LVMH will still have a small decrease and then have a significant rise [9-10].

AAR is a global independent supplier of aviation services to business and governmental clients. While maintaining a high standard of quality, service, and safety, our customers may increase productivity and cut costs with the help of our award-winning solutions and aftermarket knowledge.

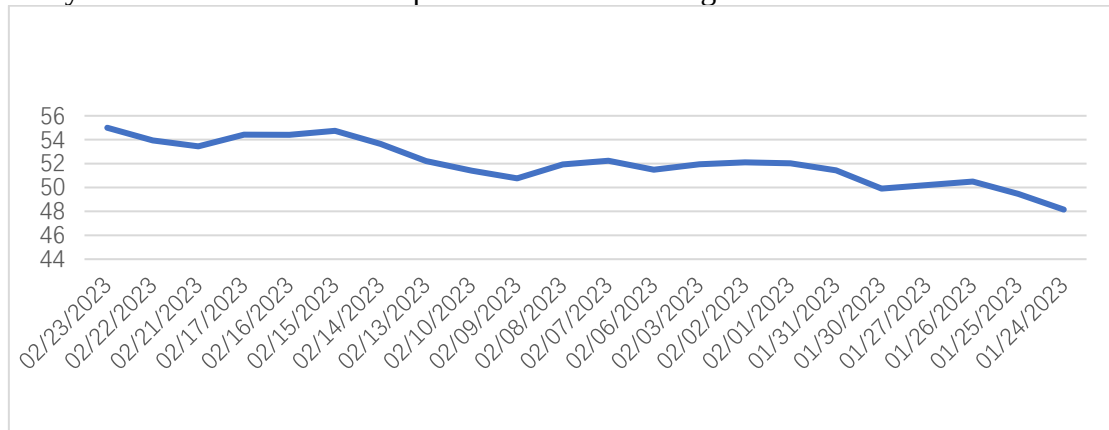


Fig 2. the close price of AAR

Fig 2 illustrates the close price of a stock from 2023.1.24 to 2023.2.23 (31 days). The price of a stock continuously rises. In 2023.1.23 the close price of the stock is 48.15 dollars, and in 2023.2.23 is 55 dollars. The predicted stock price trend will be very stable, there will not be too much price change.

Marriott International (established 1957) is a global hospitality chain, Headquartered in the United States, and created by J. Willard Marriott and his wife. In 2021, Marriott International owned 8000 hotels in the world.

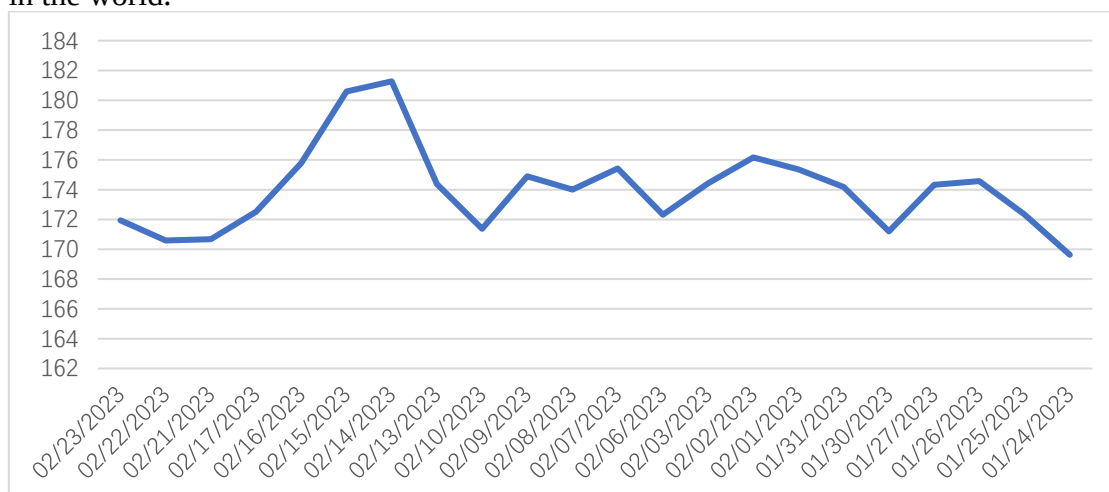


Fig 3. the close price of Marriott International

Fig 3 illustrates the close price of the stock from 2023.1.24 to 2023.2.23 (31 days). The total trend is similar to LVMH, and it fluctuates. Rise then down dramatically. The close price of the stock in 2023.1.24 is 169.63. From 2023.2.10 to 2023.2.14, there is a dramatic increase, and then a fall dramatically. The predicted stock price trend will be up because it has decreased significantly. The price will rise again.

3. Factor Analysis

For risk ratio, AAR.corp has a market cap under \$2 billion, which indicates that it is a small stock. Since the volatility of small stocks is typically 50% higher than that of large ones, AAR has more

volatility. Market cap risk: LVMH<Marriott International<AAR.Corp. AAR has a higher and riskier beta of 1.44. Marriott and LVMH have comparable betas. The hotel industry was more severely impacted by COVID-19, Thus, LVMH<Marriott International<AAR.Corp for beta risk.AAR has the lowest debt ratio and uses less leverage to reduce volatility. Bondholders would want to be compensated for the increased risk, and obtaining new debt would cost more money. If Somebody wants to avoid bankruptcy, it is safer to use less debt. Leverage risk: AAR.Corp<LVMH<Marriott International. LVMH's current ratio is 1.26 and its quick ratio is 0.48. There are a lot of inventories, which is why. They sell high-end products, thus when we want to invest in it, we should be aware of the inventory ratio. The financing for Marriott is long-term because it is in the hotel industry. Marriott has been greatly impacted and is still having trouble maintaining a sufficient cash flow. Risk overall: LVMH<Marriott International<AAR.Corp

For profitability ratio, AAR has the highest total asset turnover ratio for profitability (1.06) while Marriott has a profit margin advantage. The fact that LVMH has a greater ROA and ROE indicates that the business is profitable. Although AAR has the highest total asset turnover ratio, its profitability is poor since ROA and ROE are all so low. Moreover, AAR.Corp's profit margin is weak, which will have a significant impact on it because it is a small-cap stock. Profitability: AAR.corp<Marriott<LVMH.

For market ratio, as a result of AAR.Corp's P/B ratio being under 2, value investors will purchase it. Although they will be more interested in stocks with P/B ratios under 1 and high PE ratios, they will also be interested in AAR. Corps with P/B ratios under 2.

Because the dividend yield for each of the three stocks is less than 3%, there won't be any income investors.

Due to Marriott's PEG ratio of 0.73, which is less than 1, PEG investors will invest in the company. They'll keep an eye on LVMH and invest when the PEG ratio for LVMH falls below 2.

All three of these equities be purchased by momentum investors.

4. Conclusion

In the past covid-19 times, the stock price and the income of Luxury are relatively queasy, in analyzing how the stocks go, different types of investors can find the best stock to invest in. LVMH is the most successful and least risky of the three businesses. Although fashion can be fickle, it comprises a lot of high-end brands, considerably lowering their danger. Small-cap stock AAR.Corp is the riskiest and least profitable of the three. After the epidemic, Marriott International will perform better. Although LVMH is the best option for most investors, there are situations when taking a riskier position might result in larger results. PEG investors may invest in Marriott, and LVMH would be on their watch list until its PEG ratio fell below 2, they will buy it. Value investors will make investments in AAR.Corp. Because these three stocks' dividend yields are less than 3%, income investors won't buy them.

There are still some deficiencies in this article. For example, no more complex models are used to evaluate investment value. In the future, we will further consider the Fama-French factor model for analysis.

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