SVKM's NMIMS University
School of Distance Learning

Security Analysis & Portfolio Management

Date: 21.12.2007 **Marks: 100**
Time: 3.00 to 6.00

SECTION -A

Answer any TWO questions from the following four questions. Each question carries 20 marks.

Q.1. Securities X and Y have the following characteristics:

Security X		Security Y	
Return	Probability	Return	Probability
30%	.10	-20%	.05
20%	.20	10%	.25
10%	.40	20%	.30
5%	.20	30%	.30
-10%	.10	40%	.10

You are required to calculate (a) the expected return and standard deviation of return for each security and (b) the expected return and standard deviation of the return for the portfolio of X and Y, combined with equal weights.

Q.2. Two assets J and K, have the following risk and return characteristics:

σ_j=25%
σ_k=20%
$E(R_j)$=18%
$E(R_k)$=14%
Coefficient of Correlation between J and K = -0.20.
Determine the risk and return for a portfolio of assets J and K with the following weights:

Portfolio	**WT.J**	**WT.K**
A	90	10
B	50	50
C	40	20
D	20	80

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Q.3. The Growth Fund, T-bills, and BSE Sensex had the following returns over the past 5 years:

Time	Growth Fund Returns %	T-Bill Returns %	BSE Sensex Returns %
2000	7	5	5
2001	-5	9	-4
2002	13	7	10
2003	11	6	9
2004	15	8	12

Determine Growth Fund's beta coefficients for the 5-year period of time.

Q.4. Surya Infotech Ltd. is a new company. It has come up with the initial public issue. The issue price of the share is Rs 20 and the par value is Rs 10. Mr. Ajit Singh, a prospective investor, is considering investing Rs 50,000 in Surya Infotech's shares. He is not sure about the returns from his investment. His required rate of return is 15 per cent. Since Surya Infotech is a new company, he would like to hold the shares for 10 years before he sells them. As regards the dividend payment by the company, he visualizes four possibilities. First, the company may reinvest all its earnings and may not pay any dividend. Second, the company may pay a constant dividend of Rs 4. Third, the company may start with a dividend of Rs 3 per share, which may grow at a constant rate of 10 per cent. Fourth, the company may start paying a dividend of Rs 2 per share, which may grow at 20 per cent for the first five years and at 10 per cent thereafter. Ajit Singh expects different share prices after 10 years under the four alternatives. He anticipates share price of Rs 50, Rs 40, Rs 30 and Rs 25 respectively under alternatives one to four.

Ajit Singh can also invest his money in bonds. A government-owned financial institution is offering Rs 10,000 face value bonds with 10-year maturity at Rs 2,720. He is also considering bonds issued by Reliable Fertilizer Company. These are 15 per cent Rs 1,000 bonds with 10-year maturity. The company will redeem bonds at Rs 1,100 on maturity. Where should Ajit Singh invest?

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SECTION – B

Answer any FOUR questions from the following six questions. Each question carries 20 marks.

Q.5. Explain the importance of asset allocation in the process of Portfolio management.

Q.6. Briefly explain the parameters upon which you could judge an investment.

Q.7. Briefly explain the process of finding Optimum Portfolio.

Q.8. Explain the concept of Risk and the ways to reduce it from a portfolio.

Q.9. Compare and contrast between Fundamental Analysis and Technical Analysis

Q.10. What is an efficient market? Discuss the different levels of market efficiency?

------All the Best-----

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