SVKM'S NMIMS University

SCHOOL OF DISTANCE LEARNING

Programme (Semester): PGDFM(IV)/ADBFM(IV)
Subject: Security Analysis and Portfolio Management
Marks: 100
Duration: 3 Hours (3.00pm to 6.00pm) Date - 27.05.2009

NB:
1. All the questions are compulsory.
2. Answer to each new question to be started on a fresh page.

Q.1. Attempt any 2 out of 4 questions. **Max Marks: 10**

(i). Mr. Sachin Varshney is contemplating to invest 50 per cent of his money in Employees Provident Fund (EPF) and remaining 50 per cent in TCS stock. The individual assets risk and return are as follows:

Asset	Risk	Return
EPF	0	9 per cent
TCS	25 per cent	15 per cent

You are required to calculate the portfolio return and risk.

(ii). From the following information you are required to calculate the Beta of Shri Ram Fertilizers Limited.

Year	Ram Fertilizers Ltd's Return (%)	Market Return (%)
1	10	09
2	12	13
3	15	12
4	08	02
5	03	01
6	27	20
7	30	25

(iii). After analyzing the fundamentals of Syndicate Bank (SB) like profitability, dividend policy, operational risk, Asset Liability Management of SB, banking industry environment and effect of macro and global economic condition, Mr. Earesh found that SB will pay a dividend of Rs 3, 2, 4, 4, and 3 per share from 1 to 5 years. The growth rate, from 6^{th} year beginning, has been forecasted as 5% p.a forever. Mr. Earesh's cost of capital (required rate of return) is 12%. Currently the SB is available at Rs 100 per share in Bombay Stock Exchange. Should Mr. Earesh invest his money in Syndicate Bank?

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(iv). Below is actual return data for HUL for each of 7 months.

Time	Monthly Return (%)
1	5
2	10
3	9
4	5
5	2
6	1
7	2

Compute the standard deviation of the rate of return.

Q.2. Attempt any 3 out of 5 **Max Marks: 15**

(i). Briefly explain the stock selection through technical analysis.

(ii). Discuss the limitations of fundamental analysis.

(iii). Explain the process of investment management.

(iv). Discuss the insider trading with suitable examples.

(v). Explain the benefits of investing in mutual funds.

Q.3. Attempt any 3 out of 5 **Max Marks: 45**

(i). Suppose that seven portfolios experienced the following results during ten year period:

Portfolio	Average Annual Return (%)	Standard Deviation (%)	Beta
A	15.6	27.0	1.20
B	11.8	18.0	1.05
C	8.3	15.2	0.75
D	19.0	21.2	2.00
E	-6.0	4.0	0.60
F	23.5	19.3	2.20
G	12.1	8.2	1.30
Market	13.0	12.0	1.00
Treasury Bills	6.0		

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Rank the performance of these portfolios using:

(a). Sharpe's Method.
(b). Treynor's Method.

(ii). From the following information, you are required to calculate the portfolio risk and return if investment if coefficient of correlation between Wipro and Mahindra is 0.40.

	Wipro	Mahindra
Standard deviation	25%	18%
Average Return	20%	15%
Proportionate Investment (W)	0.60	0.40.

(iii). Define the Efficient Market Hypothesis and discuss the various level of efficient market hypothesis.

(iv). Explain the various macro and industry factors effecting the share price of a banking company.

(v). Discuss the role of SEBI in protecting the interest of investors with suitable example.

Q.4. **30 Marks**

Ashoka 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. Shamulu Rao, a prospective investor, is considering investing Rs 50,000 in Ashoka Infotech's shares. He is not sure about the returns from his investment. His required rate of return is 15 per cent. Since Ashoka 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. Shayamulu Rao 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.

What should Shyamulu Rao do?

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