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PG-616

IV Semester M.B.A. (CBCS) Examination, July - 2019

MANAGEMENT

4.2.1 : Investment Analysis and Management

10579

Time : 3 Hours

Max. Marks : 70

SECTION - A

Answer **any five** of the following questions. Each question carries **five** marks.

5x5=25

1. 'Risk can be minimized by investing in a portfolio'. Explain.

2. What are the assumptions used in Capital Asset Pricing Model ? Explain briefly.

3. What is Market Efficiency ? Explain the forms of Market Efficiency.

4. Consider the following information on two stocks X and Y :

Year	Return on X(%)	Return on Y(%)
2017	12	10
2018	18	16

You are required to determine :

(i) Expected return on portfolio containing X and Y in the proportion of 60% and 40% respectively.

(ii) The standard deviation of return from each of the two stocks.

(iii) The covariance of returns from two stocks.

5. The returns of Securities A and B are given below :

Probability	Security - A	Security - B
0.50	4	0
0.40	2	3
0.10	0	3

Give the security of your preference. The security has to be selected on the basis of risk and return.

P.T.O.

6. Pet Airways stock is selling at ₹ 28 and will pay dividends of 10% this year. If expects to hit ₹ 35 in one year and its beta is estimated at 1.95. The market risk premium is 8.6% and the T-bill is yielding 6%. Is Pet Airways a good investment ? Explain. (Face value = ₹ 1)

7. Cindrella Mutual Fund has the following assets in scheme Rudolf at the close of the business on 31st March 2018.

Company	No. of Shares	Market Price Per Share
N Ltd.	25000	₹ 20
D Ltd.	35000	₹ 300
S Ltd.	29000	₹ 380
C Ltd.	40000	₹ 500

The total number of scheme Rudolf is 10 lakhs. The scheme Rudolf has accrued expenses of ₹ 2,50,000 and other liabilities at ₹ 2,00,000. Calculate the NAV per unit of the scheme Rudolf.

SECTION - B

Answer **any three** of the following questions. Each question carries **ten** marks. **3x10=30**

8. "Fundamental Analysis provides an analytical framework for rational investment decision-making". Discuss.

9. Discuss the key macro economic variables and their impact on stock markets.

10. An investor has decided to invest ₹ 1,00,000 in the shares of two companies, namely ABC and XYZ. The projections of the returns from the shares of two companies along with their probabilities are as follows :

Probability	ABC (%)	XYZ (%)
0.20	12	16
0.25	14	10
0.25	– 7	28
0.30	28	– 2

You are required to :

(a) Comment on the return and risk of investment in individual securities.

(b) Compare the risk and return of the two shares with a portfolio of these shares in equal proportions.

(c) Find out the proportion of each of the above shares to formulate minimum risk portfolio.

11. The return and market portfolio for a period of four years are as under :

Year	% of Return of Stock B	% Return of Market Portfolio
1	10	8
2	12	10
3	9	9
4	3	−1

For Stock B you are required to determine :

(i) Characteristic line.

(ii) The systematic and unsystematic risk.

SECTION - C

Case Study (Compulsory)

12. The following table gives an analyst's expected return on two stocks for a particular market returns : **1x15=15**

Market Return	Aggressive Stock	Defensive Stock
6%	2%	8%
20%	30%	16%

(a) What are the betas of the stocks ?

(b) What is the expected return on each stock if the market return is equally likely to be 6% or 20% ?

(c) If the risk free rate is 7% and market return is equally likely to be 6% or 20%. What is the SML ?

(d) What are the alphas of two stocks ?

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