

VPM's
DR VN BRIMS, Thane
Programme: MMS (2013-15)
Third Semester Examination October/November 2014

MMS-III Subject Finance	Wealth Management (WM 03)		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	3	Date	08.11.2014

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

Case Study

Ronak is currently pursuing his MBA, he Expects to bag a job paying him Rs 5, 00,000 salary per year. He plans to buy a house in Goa for Rs 80, 00,000 at the age of 35, for this he would like to take a home loan. He also plans to pay 60% amount as down payment from his savings, the rest 40% would be paid from a home loan. Ronak plans to buy a Car for Rs 10, 00,000 at the age of 40 in cash. Please help him find out how much amount he must save to fulfill his requirements till the age of 40. Please calculate the EMI. His savings would come down to zero here.

Assume he expects his investments to fetch him 12% returns per annum till 40. According to you where he should invest the money to get 12% returns?

Ronak would like to retire at the Age of 55 and would like to withdraw Rs 600,000 every year forever for his expenses. Please help him determine what amount of his salary he should be saving so that he can meet this requirement as well. Ronak will be 25 years of age when he starts his job. All the payments and receipt will be made at the end of the year. Neglect any tax factors and other charges. Ronak expects that his salary will grow by 100% every 5 years from the date of joining.

Assume he expects his investments to fetch him 9 % returns per annum after 40. According to you where he should invest the money to get 9% returns? Post retirement inflation could be assumed at 7% per annum?

Attempt Any FOUR from the Remaining SIX Questions

Q2) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

a) What do you understand CPI & WPI index based inflation? Which of the 2 is more relevant to us & why? Is there any simple product by which you can beat inflation?

b) Evaluate & Rate funds A & B on the basis of a) Sharpe Ratio b) Treynor Ratio c) Information Ratio; given the following data: A has given 45% annualized return over 5 years whereas B has given 25% annualized return over the same period. Annualized Standard deviation in returns of funds A & B is 30% and 10% respectively.

Risk free rate is 8%

Beta for funds A & B is 1.8 and 0.6 respectively.

The benchmark index for both the funds gave a return of 20%.

c) What do you understand by financial planning? Explain the step by step process of financial planning?

Q3) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Explain the concept of duration with its significance. If a bond has duration of 4 & is currently trading at 1000. If the yields go up by 100 BPS what will be the new price of the bond.
- b) Find out the value of a zero coupon bond issued for 5 years with YTM of 9%, FV=1000. (Assume annual compounding)? What will be the duration of this bond?
- c) Share A has fallen from 1000 to 100 whereas Share B has risen from 10 to 100? Which one would you buy & why? Explain with the help of Market efficiency.

Q4) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Why does it make more sense to invest for a long term statistically? Let's say a portfolio gave you 20% return for a year with a deviation of 15%. What would be your risk reward ratio for 1 year & 10 years in this case?
- b) What is the difference between term plan & endowment plan? Which one would a recommend to a young lady at the age of 32 with 3 dependents? Why? What should be the approximate policy amount according to you? (Assume she earns 5 Lakh rupees per annum.)
- c) Rate these funds based on Risk & potential return in the order of highest to lowest? A) Nifty Index Fund 2) Small & Midcap fund 3) Debt Fund 4) FMCG sector fund E) Liquid fund. Give a proper explanation for your sequencing.

Q5) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Explain the concept of Market efficiency with its different forms.
- b) Chirag started investing when he was 25 with a corpus of 10 lacs. His financial planner advised him to follow a rule considering his age till 30 he should put 75% of the money in equity fund & 25% in debt fund. Planner also told Chirag to switch between equity & debt on yearly basis if required based on the returns offered by the funds so as to maintain same mix of debt & equity. During first year equities corrected by 15% whereas debt investment gave him 10% returns. However during second year equities rallied by 40% and debt gave him 8% returns. At the end of two years what will be the value of the portfolio of Chirag?
- c) Amar has invested 15,00,000 rupees in FMP in 2014-15 when CII index was 1024 on maturity in 2018-19 FMP returned him 22,50,000 with CII at 1330. (Assumed) What will be the index cost of acquisition for Amar. In the above case what will be the net taxable amount for Amar?

Q6) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Parag has a portfolio consisting of two scripts A (6 lacs) & B (4Lacs). A has given 15 % return per annum in last 3 years whereas B has given 30 % return per annum in the same period. Risk associated with A & B is 20% & 25% respectively. Please calculate risk & return for the combined portfolio if the correlation between the returns of the securities is 0.3. Has he benefited from diversification? If yes why, If no why?
- b) Write a short note on Index funds clearly stating the advantages and disadvantages.
- c) What do you understand by SIP, STP & SWP? What are the advantages & disadvantages of SIP over one time investment?

Q7) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

a) Mr. Lele retired in June 2014, by that time he had a corpus of 15 crore. If he wants Rs. 70000 towards his monthly expenses. How much should he invest in an SWP with returns of 9% per annum? If expected inflation is 10% for rest of his life. Where should he invest the remaining money?

b) Lavesh has a portfolio of 50 lacs with exposure to various asset classes like equity (60%), debt (30%) & gold (10%). The risk & return for equity per annum are 18% & 22%. The risk & return for debt per annum are 3% & 9%. Risk & return for gold per annum are 15% & 10%. What will be the range of values of Lavesh's portfolio after 5 years assuming he retains his investment for 5 years and zero correlation between asset classes? (Consider $+2\sigma$ to be extreme events.)

c) What is a mutual fund? What are the advantages & disadvantages of investing through mutual fund?