PMSA03

Portfolio Management & Security Analysis.

Roll No.

Total no. of questions: 7

Duration: 3 hours

Total no. of printed pages: 2

Maximum marks: 60

Note: Answer any **five** questions. All questions carry equal marks. Figures in parenthesis indicate maximum marks.

Q.1.

(A) An investor developed an efficient portfolio with four companies stocks. The expected return on stocks is as follows:

(i) Infosys 16% (ii) Toyota 20% (iii) SBI 17% (iv) SAIL 10%

The Investor has decided to invest the available amount equally on all companies stocks. Determine the return on portfolio. *(6)*

(B) Two securities that are perfectly negatively correlated have standard deviations of 0.005 (Security A) and 0.015 (security B). What would be the proportion of these two securities in a zero risk portfolio? *(6)*

Q.2. (A) ABC Company has forecasted returns on its share with the following probabilities:

Returns (%)	Probabilities
-20	0.05
-10	0.05
-5	0.10
5	0.10
10	0.15
18	0.25
20	0.25
30	0.05

Calculate the expected return. *(6)*

(B) A firm wants to select one project from the following two alternatives. The expected return and standard deviation for each of the alternative are as follows:

	Project 1	Project 2
Expected return (%)	16	22
Standard deviation	8	12

Find out which option the firm should select. *(6)*

Q.3. (A) Briefly state various steps involved in portfolio management process **(6)**

(B) Explain in brief the difference between Capital Market Line and Security Market Line. **(6)**

Q.4. Mr. X is considering several investments. The risk free rate of return is currently 6.75% and the expected return for the market is 12%.

Security	A	B	C	D	E
Beta	1.20	0.80	1.50	0.60	1.25

What should be the required rates of return for each investment using CAPM? **(12)**

Q.5. The beta of XYZ Company is 0.90. The company is maintaining an 8% rate of growth in earnings or dividends. The last dividend paid was Rs. 5 per share. The risk free rate of return and the return on market portfolio are 10% and 15% respectively. The current market price of the company is Rs. 75. What will be the price per share of the company as per CAPM? **(12)**

Q.6. Consider the following data for a particular period:

	Portfolio A	Market portfolio
Average return	0.25	0.30
Beta	1.2	1
Standard deviation	0.30	0.40

The Treasury bill rate during the period was 6%. Evaluate Portfolio A using Sharpe measure and find out whether the portfolio over or under performed the market. **(12)**

Q.7. Write short notes on the following: **(12)**

    (a) Systematic and unsystematic risk

    (b) Efficient portfolio and dominant portfolio

    (c) Derivatives as tools for risk management

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