MMS-III (Finance) 22/10/13

WM 03

Wealth Management

Roll No. Total No. of Printed Pages: 3

Total No. Of Questions: 7 Maximum Marks: 60

Duration (hrs.) : 3 Hours

Note:

1. **Question number one is compulsory**
2. **Attempt Any Four out of the Remaining Six Questions**
3. **Question one carries 20 marks.**
4. **Question two to seven carry 10 marks each.**
5. **Questions two to seven carry part (a), (b) &(c) of 5 marks each.**
6. **For questions two to seven attempt any 2 parts.**

Question 1

Case Study

Dhiraj is 35 as on 1st Jan 2013; and is earning 10 Lac rupees as an annual income from all sources. He is the only earning member in the family with 2 dependents. He has following goals in his mind. Son's education in 2023 for which he will require onetime cash flow of 20 lacs. He will retire at the age of 60 for which he will start saving once he is 40. Post retirement he wants to draw a monthly income of 2 lacs for the rest of his life. He wants to go on a world tour once he is 65 with his wife which will cost 25 lacs at that point of time for which he will start saving once he is 45. He wants to have a contingency fund towards medical expenses of Rs. 15 lac by the time he is 60 for which he will start saving today. Considering his requirements can you design a financial plan for him? His annual income will grow at a CAGR of 10% per annum. Inflation for all his post retirement years can be assumed at 9% per annum. Rs. 2 lacs per month post retirement include lot of savings per month as well so those could be used to beat the inflation.

Question 2

a) What do you understand by the term mutual fund? What are the advantages & disadvantages of investing through the same?
b) Satish has a portfolio consisting of two scripts A (6 lacs) & B (4Lacs). A has given 20 % return per annum in last 3 years whereas B has given 15 % return per annum in the same period.? Risk associated with A& B is 22% & 26% 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?

c) Explain 3 forms of market efficiencies & their implications. Do you think markets are actually efficient? If yes why, If no why?

Question 3

a) What are the different asset classes available to the investor? What are the advantages & disadvantages of investing in them individually?

b) If Anamika wants to buy a Car worth Rs. 25 Lacs. When she is 40 years old. Today her age is 27 then how much she should save per annum to buy that car assuming her investments fetch her 12% returns? According to you where she should put her money to get that kind of returns?

c) What do you understand by the term index funds? Which are the different type of index funds

Question 4

a) Amit has a portfolio of 50 lacs with exposure to various asset classes like equity (50%), debt (30%) & gold (20%). The risk & return for equity per annum are 22% & 18%. 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 Amit's portfolio after 10 years assuming he retains his investment for 10 years? (Consider +-2σ to be extreme events.)

b) 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?

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

Question 5

a) How do FMP's compare with FD's?

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 35% annualized return over 5 years whereas B has given 30% annualized return over the same period. Annualized Standard deviation in returns of funds A & B is 20% and 16% respectively. Risk free rate is 8%

Beta for funds A & B is 1.5 and 1.2 respectively.

The benchmark index for both the funds gave a return of 25%.

c) What do understand by term duration? What's the duration for a zero coupon bond? If a bond has duration of 6 years & yields go down by 50bps then what would be the percentage change in bond price?

Question 6

a) 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.

b) Amar had invested 15,00,000 rupees in FMP in 2010-11 when CII index was 711 on maturity in 2012-13 FMP returned him 21,50,000 with CII at 852.What will be the index cost of acquisition for Amar. In the above case what will be the net taxable amount for Amar?

c) Share A has fal'en from 5000 to 500 whereas Share B has risen from 50 to 500? Which one would you buy & why? Explain with the help of Market efficiency.

Question 7

a) Find out the value of a zero coupon bond issued for 5 years with YTM of 9%, FV=100. (Assume annual compounding)? What will be the duration of this bond?

b) Can a debt fund give negative returns? If yes then for how much time or in what cases? Then where one should park his money to get the highest possible assured positive returns?

c) What are the various ways by which a retail investor can protect his portfolio against currency fluctuations?