

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER- III EXAMINATION – WINTER 2019

Subject Code: 2830203

Date: 05-12-2019

Subject Name: Security Analysis and Portfolio Management

Time: 10:30 AM TO 1.30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.

1 From the multiple choices given select. **06**

(a)

1 Mr. X is just retired as a government officer. Which investment would grade upper most with regard to Protection

- | | |
|--------------------|---------------------|
| A. Preferred stock | B. Real Estate |
| C. Common Stock | D. Government bonds |

An efficient portfolio is one in which there is no alternative with

The same expected return at a higher risk

2. A. Lower expected return at lower risk

B.

C. Higher Expected return at higher risk

D

The same expected return at a lower risk

3. The highly liquid security is

- | | |
|----------------------|----------------------|
| A. Mutual fund units | B. Treasury bills |
| C. Shares | D. Commercial Papers |

Diversification eliminates risk if return are:

- | | |
|------------------------------------|------------------------------------|
| 4. A. Positively correlated | B. Perfectly positively correlated |
| C. Perfectly negatively correlated | D. All the above |

The capital asset pricing model assumes

- | | |
|---|---|
| 5. A. All investors are price takers | B. All investors have same holding period |
| C. Investors pay taxes on capital gains. | D. Both A and B are true |

In well- diversified portfolio

- | | |
|--|---|
| 6. A. Market risk is negligible | B. Systematic risk is negligible |
| C. Unsystematic risk negligible | D. Non diversifiable risk is negligible |

Write a Short notes on:

Q.1 (b) (1) Margin Trading **04**
 (2) Holding Period return
 (3) Beta
 (4) Sharpe Ratio

Q.1 (c) Explain the Trade-off between Expected Return and Risk **04**

OR

(b) Describe the basic working of margin trading

07

Q.3 (a) Differentiate; Systematic Risk & Unsystematic Risk

07

(b) Explain different approaches for security analysis

07

OR

Q.3 (a) What are the strengths & weakness of fundamental Analysis?

07

(b) Discuss the advantages of E-I-C Analysis.

07

Q.4 (a) Describe the tools & uses of Technical Analysis.

07

(b) What is the meaning and assumption of efficient market Hypothesis?

07

OR

Q.4 (a) What are the short comings of capital asset pricing Model (CAPM)?

07

(b) Discuss the basis of construction of an optimum portfolio.

07

Q.5 Case Study

14

Fundamental Analysis

Rajiv has just joined an investment company. He wanted to prove his theory of stock market at his workplace. He had understanding of all the quantitative models, economic impact and market sentiment on the movement of stock market from his course on fundamental analysis in college.

Rajiv wanted to convince his colleges about the simplicity of fundamental analysis by using simple known techniques to identify market potential.

It appeared to him that Indian stock markets can make use of this and that a straight forward fundamental analysis can do the trick to beat other investment companies. Rajiv began his fundamental analysis on the day Budget 2002 was announced.

The objective of the budget as segregated in term of his various component were:

- (1) Strength the growth of rural economy, especially agriculture and allied activities.
- (2) Nurture the revolutionary potential of the new knowledge- based industries such as Infotech, biotechnology, and pharmaceuticals
- (3) Strengthen and modernize traditional Industries such as textiles, leather, Argo processing and SSI sector
- (4) Remove bottlenecks in power, road, ports, Telecom, Railways and airways sector.
- (5) Accord the highest priority to Human Resource Development through programmers and policies in education, health and other social services with

- special emphasis on the poorest and weakest section of society.
- (6) Strengthen Indian's role in the world economy through rapid growth of exports, higher foreign investment and prudent external Debt management.
- (7) Establish a credible framework of fiscal discipline.

The Indian economy's expected growth by 5.5% as against 6.8 % in the previous year is a positive signal for industry. More importantly, industries recovery seems finally to be underway from the cyclical down turn of the previous 2 years. The growth of GDP from manufacturing is expected to almost double to 7% in 1999- 2000 from 3.6% in 1998-99. The growth in GDP from the construction sector is expected to accelerate to 9.0 % from 5.7%. The performance of infrastructure sectors is expected to improve remarkably. The inflation rate has dropped to International levels of 2 to 3 %.

The balance payments survived the twin shocks of the East Asian crisis and the post- Pokhran sanctions with a low current account deficit and sufficient capital inflows. This is supported by the continuing rise the foreign exchange reserves by over US \$ 2.4 billion, leading to a relatively stable exchange rate. Export performance has improved at par with a better performing emerging economics. The restoration of confidence in industry, hence, will be best reflected in the rise in the stock market during the year 2001-2002.

Questions:

- A) Why Rajiv took fundamental analysis to prove his theory of the stock market at his workplace?
- B) Should Rajiv perform any further analysis to confirm his findings?

OR

Q.5

Case Study:

14

CAPM Model

Mr. Sunita Mehta, he is a professor in degree college. As his age is 60 years and as per rule of government his retirement will come at the age of 62 years. So, before retirement, he wants to manage his retired Life by securing his future. So, he wants to have a proper portfolio for his money investment.

So, he went to investment management company so that he may have proper Portfolio Management for his money. There he got suggestion to make investment in 6 scrips for inclusion in portfolio. The detail of the scrips, proposed share of each scrips in the portfolio, and the individual stock beta are given below:

Scrips	Proportion in the portfolio	Stock beta
SBI	0.15	1.07
Ranbaxy	0.20	0.25
Cipla	0.15	0.85
ACC	0.25	0.32
TCS	0.15	0.85
Maruti	0.10	0.68

Questions:

- a) What will be portfolio beta of Mr. Mehta's investment
- b) Portfolio manager advised him to also include gold the portfolio, he, therefore wants to replace Maruti with NSE Goldbees, which has a return beta -0.11.He would like to know whether the portfolio beta will increase or decrease by including gold bees, by allocating 0.25 of the fund to Goldbees.by reducing the exposure n ACC by 0.15,and elimination Maruti from the portfolio.
