 www.FirstRanker.com

Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 3– EXAMINATION – WINTER 2015

Subject Code: 2830203 **Date: 07/12/2015**

Subject Name: Security Analysis & Portfolio Management

Time: 10.30 am to 01.30 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 (a) Objective Questions **6**

1. Book building is used to help in better
   - A. Price discovery
   - B. Retail participation
   - C. Institutional participation
   - D. Investor communication
2. Diversification eliminates risk if returns are:
   - A. Not perfectly positively correlated
   - B. Perfectly positively correlated
   - C. Perfectly negatively correlated
   - D All the above
3. Underpriced securities plot
   - A. Above the Security Market Line
   - B. Below the Security Market Line
   - C. Any of the above
   - D. None of the above
4. According to Weak -form efficiency, market prices impound available
   - A. Private information
   - B. Past information
   - C. Public information
   - D. Future information
5. An efficient portfolio is one in which there is no alternative with
   - A. Lower expected return at lower risk
   - B. The same expected return at a higher risk
   - C. Higher expected return at higher risk
   - D. The same expected return at a lower risk
6. Internal rate of return on a bond investment is its
   - A. Current yield
   - B. Yield to maturity
   - C. Holding period return
   - D. Realised yield

Q.1 (b) Write notes on: **04**

a. Beta
b. Marginal Trading
c. Holding Period Return
d. Sharpe Ratio

Q.1 (c) What do you mean by Trade-off between Expected Return and Risk? **04**

Q.2 (a) Discuss portfolio management process and factors affecting portfolio performance? **07**

(b) The probability distribution of the rate of return on a stock is given below: **07**

State of the Economy	Probability of Occurrence	Rate of return
Boom	0.20	.30
Normal	0.50	.18
Recession	0.30	.09

What is the expected return and standard deviation?

OR

(b) The return on two assets under four possible states of nature are given below. **07**

State of nature	Probability	Return on asset 1	Return on asset 2
1	0.40	-6%	12%
2	0.10	18%	14%
3	0.20	20%	16%
4	0.30	25%	20%

a. What is the standard deviation of the return on asset 1 and asset 2?

b. What is the covariance between the returns on assets 1 & 2?

c. What is the coefficient of correlation between the returns on assets 1 and 2?

Q.3 **(a)** What is the purpose of financial statement analysis (FSA) and what are the major techniques of FSA? **07**

(b) What is the meaning of Capital Asset Pricing Model and also state its Major Assumptions. **07**

OR

Q.3 **(a)** What are the key domestic economic variables to be considered for economic analysis? **07**

(b) The risk-free return is 8 percent and the return on market portfolio is 16 percent. Stock X's beta is 1.2; its dividends and earnings are expected to grow at the constant rate of 10 percent. If the previous dividend per share of stock X was Rs.3.00, what should be the intrinsic value per share of stock X? **07**

Q.4 **(a)** Define mutual fund. State how does the mutual fund industry play a role in financial market? Also explain the advantages of investing in mutual funds? **07**

(b) Explain different indicators associated with Technical Analysis? **07**

OR

Q.4 **(a)** Explain Dow Theory and trends associated with the theory in details. **07**

(b) What are the Top-down versus bottom-up approaches of portfolio management? **07**

Q.5 You were invested in three mutual funds schemes Namely L, M, and N, and the Mean return, standard deviation, Beta of the schemes and the return on the market are provided to you. The mean risk-free rate was 8 percent. **14**

	Mean return (%)	Standard Deviation (%)	Beta
L	15	20	1.6
M	12	11	0.8
N	18	15	1.3
Market Index	13	14	1.0

You are required to calculate the Sharpe measure, Treynor measure and Jensen measure. Rate the schemes based on Sharpe, Treynor and Jensen.

OR

Q.5 Two securities P and Q are considered for investment. Their correlation coefficient of returns is –0.84. The following proportions in the portfolio: (a) 0: 100, (b) 10: 90, (c) 20: 80, (d) 50: 50, and (e) 80: 20 are given to you. **14**

The Historical Risk- Return of the two security is

Security	Standard Deviation (%)	Return (%)
P	20	15
Q	30	20

Compute the risk and return of the portfolio.

****