USN | | | | | | | | | | |

12MBAFM322/12MBABI332

Third Semester MBA Degree Examination, Dec.2014/Jan.2015

Investment Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any THREE full questions from Q.No.1 to Q.No.6.***
2. ***Q.No.7 and Q.No.8 are compulsory.***
3. ***Use of present value tables allowed.***

1 a. Distinguish between bullish and bearish markets. **(03 Marks)**

b. Discuss the utility of stock market index. **(07 Marks)**

c. The returns on securities A and B are given below:

Probability	Security A	Security B
0.5	4	0
0.4	2	3
0.1	0	3

Give the security of your preference based on return and risk. **(10 Marks)**

2 a. What is a depository? What is its role in stock trading? **(03 Marks)**

b. Write short notes on: i) Book building, ii) Under writing. **(07 Marks)**

c. A stock costing ₹ 120 pays no dividends. The possible prices that the stock might sell for at the end of the year with respective probabilities are as follows:

Price	115	120	125	130	135	140
Probability	0.1	0.1	0.2	0.3	0.2	0.1

Calculate the expected return. Calculate the standard deviation of returns. **(10 Marks)**

3 a. What are the basic assumptions of CAPM? **(03 Marks)**

b. A person owns a ₹ 1000 face value bond with five years to maturity. The bond makes annual interest payments of ₹ 80. The bond is currently priced at ₹ 960. Given that the market interest rate is 10 percent, should the investor hold or sell the bond?
Given: Present value factor (5 years, 10%) = 0.6209
Present value annuity factor (5 years, 10%) = 3.7908 **(07 Marks)**

c. A chemical company paid a dividend of ₹ 2.75 during the current year. Forecast suggests that earnings and dividends of the company are likely to grow at the rate of 8 percent over the next 5 years and at the rate of 5 percent thereafter. Investors have traditionally expected a rate of return of 20 percent on these shares. What is the present value of stock? **(10 Marks)**

4 a. Explain the basic principles and hypothesis of Dow theory. **(05 Marks)**

b. "The first step in industry analysis is to determine the stage of growth through which the industry is passing." Explain. **(05 Marks)**

c. Find the duration of a 6 percent coupon bond with a face value of ₹ 1000 making annual interest payments, if it has 5 years until maturity. The bond is redeemable at 5 percent premium at maturity. The market interest rate is currently 8 percent. **(10 Marks)**

5 a. Differentiate between open-ended and closed-ended mutual funds. **(05 Marks)**

b. A company has equity shares of the face value of ₹ 10. It just paid an annual dividend of ₹ 4. The dividend is expected to grow at 9 percent per annum perpetually. The company is quite consistent. It has an equity capitalization rate of 15%. What is the intrinsic value of the shares? If the company belongs to risk class of 14 percent, what would be the value? **(05 Marks)**

c. The following portfolios are available to an investor:

Portfolio	Return	Risk	Other details
A	16%	4%	$\sigma_m = 9\%$
B	21%	6%	$R_m = 21\%$
C	24%	10%	$R_f = 12\%$

Find out whether these portfolios are efficient or not, given that risk-free interest rate is 12%, return on market portfolio is 21 percent and risk of the market portfolio is 9%. **(10 Marks)**

6 a. Consider a portfolio composed of 5 securities. All the securities have a beta of one and unique risk (standard deviation) of 25%. The portfolio distributes weight equally among its component securities. If the standard deviation of market index is 18%, calculate the total risk of the portfolio. **(05 Marks)**

b. The riskless securities are offering a return of 6%, while return on the market portfolio is 12%. The standard deviation of the market portfolio is 3%. An investor has constructed a portfolio which has a standard deviation of 1.2% and a correlation with the market return is 0.75. Find out the expected return of the investor. **(05 Marks)**

c. What is random walk theory? What does it project in its weak form, semi-strong form and strong form? **(10 Marks)**

7 ***Skill based questions:***

a. "Investment is well grounded and carefully planned speculation" – Discuss. **(05 Marks)**

b. Describe the key economic variables that an investor must monitor as part of his fundamental analysis. **(05 Marks)**

c. What is the significance of studying support and resistance levels in technical analysis? **(05 Marks)**

d. Pearl and Diamond are the two mutual funds. Pearl has a mean success of 0.15 and diamond has 0.22. Diamond fund has double the beta of pearl funds 1.5. The standard deviations of pearl and diamond funds are 15% and 21.43%. The mean return of the market index is 12% and its standard deviation is 7. Risk free rate is 5%. Compute the Trynor and Sharp indices for the funds and interpret the results. **(05 Marks)**

8 ***Case study:***

Answer the following TWO questions:

a. Show how the following investors are natural candidates for different asset allocation policies.

i) Mahesh – a retiree with modest means who recently retired from government services. He owns an apartment, lives with his wife, receives an annual pension of ₹ 1,80,000, has savings of ₹ 5 lakh. He had received a sum of ₹ 20 lakh from pension fund. He wants to prevent erosion of his capital and increase his wealth.

ii) Praveen – an MBA aged 30 years working in a MNC expecting career advances. He inherited ₹ 10 lakh from his grandpa. He wants to build a sizeable portfolio in the next 20 years. **(10 Marks)**

b. Monthly return data (in percent) are presented for CTS stock and BSE National Index for a 8 month period.

Month	1	2	3	4	5	6	7	8
CTS	10	15	18	14	16	16	18	4
Index	12	14	13	10	9	13	14	7

What is the beta of stock CTS? What is its characteristic line? **(10 Marks)**

* * * * *