CBCS Scheme

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16MBAFM303

Third Semester MBA Degree Examination, June/July 2018

Investment Management

Time: 3 hrs. Max. Marks:80

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***
3. ***Use of PV tables is permitted.***

1 a. Distinguish between economic and financial investment. **(02 Marks)**
b. Explain the attributes one should consider while evaluating an investment. **(06 Marks)**
c. Describe the process of investment. **(08 Marks)**

2 a. X company's preference share is currently selling for Rs.44 per share in the market and pays Rs.4.40 annual dividend. If an investor's required rate of return is 12%, what is the value of a preference share for that investor? Should the investor acquire the preference shares? **(02 Marks)**
b. Explain the types of risks associated with bonds. **(06 Marks)**
c. Mr. Karan purchased at par a bond with the face value of Rs.1000. The bond had five years to maturity and a 10% coupon rate. The bond was called two years later for a price of Rs.1200 after making its second annual interest payment. Karan then reinvested the proceeds in a bond selling at its face value of Rs.1000 with three years to maturity and a 7% coupon rate. What is Karan's actual YTM over the five year period? **(08 Marks)**

3 a. Two assets A and B have the following risk and return characteristics:
Return of A = 22% Return of B = 20%
Standard deviation of A = 15% Standard deviation of B = 18%
The correlation between assets A and B is -1. Determine the minimum risk portfolio. **(02 Marks)**
b. Explain the trading and settlement procedure in BSE. **(06 Marks)**
c. Suppose that seven port folios experienced the following results during a ten year period.

Portfolio	Average Annual Return	Standard Deviation	Correlation with the market
A	15.60	27.00	0.81
B	11.80	18.00	0.55
C	8.30	15.20	0.38
D	19.00	21.20	0.75
E	-6.00	4.00	0.45
F	23.50	19.30	0.63
G	12.10	8.20	0.98
Market	13.00	12.00	

i) Rank these portfolios using Sharpe and Treynor methods. The risk free rate is 6%.
ii) Did any portfolio outperform the market? Why or why not? **(08 Marks)**

4 a. What is behavioural finance? **(02 Marks)**
b. Discuss the relevance of economic analysis, in investment decision making and explain the economic factors considered for this analysis. **(06 Marks)**

c. Excel Ltd paid a dividend of Rs.2.75 during the current year. Forecasts suggest that earnings and dividends of the company are likely to grow at the rate of 8% over the next five years and at the rate of 5% thereafter. Investors have traditionally required a rate of return of 20% on these shares. What is the present value of stock? **(08 Marks)**

5 a. List the basic tenets of DOW theory. **(02 Marks)**

b. Describe the various forms of market efficiency. Explain the various tests of market efficiency. **(06 Marks)**

c. Following information is available in respect of market:

Security	Expected return (%)	Beta
A	22.20	1.75
B	15.80	1.90
C	18.00	1.10
D	9.00	0.95
E	25.80	2.00
T-Bill	8.00	-
Nifty	15.00	1.00

i) Which of the securities are underpriced or overpriced in terms of security market line?
ii) What expected returns an investor would have if the investor forms an equally weighted portfolio of all the risky securities from A to E? **(08 Marks)**

6 a. Distinguish between CML and SML. **(02 Marks)**

b. Describe the various mutual fund schemes available in India. **(06 Marks)**

c. A Rs.100 par value bond bears a coupon rate of 14% and matures after five years. Interest is paid semi-annually. Compute the value of the bond if the required rate of return is 16%. **(08 Marks)**

7 a. What is RSI? **(02 Marks)**

b. Describe Markowitz efficient frontier and explain how it dominates the portfolios that lie below it. **(06 Marks)**

c. A financial analyst is analysis of two investment alternatives, A and B. The estimates rates of return and their chances of occurrence for the next year are given in the table below:

Probability	Rates of Return (%)	
	A	B
0.20	22%	5%
0.60	14%	15%
0.20	–4%	25%

i) Determine the expected rate of return and standard deviation of A and B.
ii) If the financial analyst wishes to invest half in A and another half in B, would it reduce risk? Explain the reason for it. **(08 Marks)**

8 ***CASE STUDY:***

ST and BT companies' shares are presently sold at Rs.60 and Rs.100 respectively. Annual dividends over the next year are expected to be Rs.1.5 and Rs.2.5 respectively. ST's projected earnings per share is Rs.2.5 and BT's is Rs.4. ST's dividends are expected to grow at 10% per annum in the future and BT's by 9%. Financial analysts have estimated the likely prices for the year ahead on two stocks to be Rs.66, Rs.72, Rs.75 for ST and Rs.114, Rs.1[illegible], Rs.132 for BT.

a. You are required to examine the return of each company's stock. Choose one stock to be purchased for a holding period of one year. Support your choice. **(08 Marks)**

b. If the investor's required rate of return is 12% and he wants to hold the stock for a longer period, which stock would you suggest? Why? **(08 Marks)**

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