10MBAFM322/BF372

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# Third Semester MBA Degree Examination, Dec.2016/Jan.2017
## Security Analysis and Portfolio Management

Time: 3 hrs. Max. Marks:100

**Note:** *1. Answer any FOUR full questions from Q.No.1 to 7.*
*2. Q.No. 8 is compulsory.*
*3. Use of future value and present value table is permitted.*



1 a. What do you mean by secondary market? **(03 Marks)**
b. Explain briefly about SML. **(07 Marks)**
c. What are the different types of mutual funds and its advantages? **(10 Marks)**

2 a. Mention three methods of initial issue. **(03 Marks)**
b. Differentiate between investment and speculation. **(07 Marks)**
c. Explain efficient market hypothesis. **(10 Marks)**

3 a. What is systematic risk? **(03 Marks)**
b. A price of Rs.1000/- per value bond carrying a coupon rate of 7% and maturing after 5 years is Rs.1040/-. Find out: i) YTM; ii) Realized YTM if the reinvestment rate is 6%. **(07 Marks)**
c. The return of two securities under four stages of economy are given below. Determine the risk and return of each securities and compute portfolio return and risk if an investor make an investment. **(10 Marks)**
i) Equally invested
ii) With weights of 60% and 40%
iii) If weights are 30% and 70%.

| Economy | Pi | Company -1 ONGC | Company -2 VSNL |
|---|---|---|---|
| Expansion | 30% | 15 | 8 |
| Peak | 40% | 10 | 18 |
| Recession | 10% | 25 | 16 |
| Decline | 20% | 5 | 24 |

4 a. What do you understand by fundamental analysis? **(03 Marks)**
b. Explain DOW theory. **(07 Marks)**
c. The following information relates to 2 securities 'L' and 'M' yielded return for 2 years as mentioned below:

| Years | Return (L) | Return (M) |
|---|---|---|
| 2005 | 12 | 14 |
| 2006 | 18 | 12 |

i) What is the expected return on portfolio made up of 60% and 40% (L and M)?
ii) Find 'σ' (standard deviation) of each security.
iii) What is the covariance and co-efficient of correlation between L and M? **(10 Marks)**

5 a. A Rs.100/- par value bond bearing a coupon rate of 9% will mature after 4 years. What is the value of the bond if the discount rate is 13%? **(03 Marks)**

b. Following are the return of a stock for 5 year period. Find out the expected return, risk, co-efficient of variation and variance:

| Year | Return in % |
|---|---|
| 2000 | 54 |
| 2001 | 58 |
| 2002 | 63 |
| 2003 | 32 |
| 2004 | 48 |

**(07 Marks)**

c. Mention different types of bonds and mention the sources of risk. **(10 Marks)**

6 a. Differentiate between real asset and financial asset. **(03 Marks)**

b. Explain the different avenues of investment. **(07 Marks)**

c. Arun buys a bond with 5 years to maturity the bond has a coupon rate of 8.5% and its price left is Rs.954/- in the market. The bond has a face value of Rs.1000/- and YTM of 10%. What is the duration of the bond, also calculate modified duration of bond? **(10 Marks)**

7 a. Discuss some of the chart patterns in technical analysis. **(03 Marks)**

b. Evergreen investment company manager the stock funds consisting of 4 stocks with the following market value and 'β' (Beta) ['β' = Beta].

| Stock | Market value | 'β' |
|---|---|---|
| Bell | 2,00,000 | 1.10 |
| Shell | 1,00,000 | 1.20 |
| Grill | 1,50,000 | 0.80 |
| Nell | 50,000 | 0.50 |

If the rate of internet is 9% and the market return is 15%? What will be the portfolio expected return? **(07 Marks)**

c. ABC Ltd earnings and dividends have been gravity at the rate of 18% per annum. This float is expected to continue for 4 years after that the growth rate will be facing for 12%, for next 4 years there after the growth rate is expected to be 6% forever. If the last dividend per share was Rs.2/- and investor required rate of return is 15%. What is the intrinsic value of share? **(10 Marks)**

8

## CASE STUDY

Suppose that 7 mutual funds experienced following returns over a 10 year period as under:

| Mutual fund name | Return/year (%) | $\sigma_{return}$ % | Correlation, MF, 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 | NA |
| T-Bills | 6.00 | Zero | NA |

i) Rank the above using sharpe, treynor measures.

ii) Did any fund outperform the market? **(20 Marks)**

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