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08MBAFM322/BF372

Third Semester MBA Degree Examination, June/July 2011
Security Analysis and Portfolio Management

Time: 3 hrs.

Max. Marks:100

- Note:** 1. Answer any FOUR full questions from Q.No.1 to Q.No.7.
2. Question No. 8 is compulsory.
3. Use of calculator and time value (PU) table is permitted.

- 1 a. What is investment? (03 Marks)
b. Briefly explain the important objectives of an investment. (07 Marks)
c. What are the functions of stock exchanges? How are they managed? (10 Marks)
- 2 a. What do you mean by dematerialization? (03 Marks)
b. Write about the NSE and BSE. (07 Marks)
c. XYZ limited's earnings and dividends have been growing at a rate of 18% per annum. This growth rate is expected to continue for 4 years. After that the growth rate will fall to 12 percent for the next 4 years. Thereafter, the growth rate is expected to be 6 percent forever. If the last dividend per share was Rs.2.00 and the investor's required rate of return on XYZ's equity is 15 percent, what is the intrinsic value of the share? (10 Marks)
- 3 a. What does a bond indenture contain? (03 Marks)
b. The market price of a Rs.1000 par value bond carrying a coupon rate of 14 percent and maturity after five years is Rs.1050. What is the approximate YTM? What will be the realized yield to maturity if the reinvestment rate is 12 percent? (07 Marks)
c. Calculate the duration for Bond A and Bond B.

	Bond A	Bond B
Face value	Rs. 1000	Rs. 1000
Coupon rate	7%	8%
Maturity period	4 years	4 years

Bonds are currently yielding at 6%. Suggest which bond is to be selected for investment.

(10 Marks)

- 4 a. How does technical analysis differ from the fundamental analysis? (03 Marks)
b. Do you think that knowing the current stats of economy is useful in analysis stock market movements? If so, explain. (07 Marks)
c. The Rudrakshi investment company manages a portfolio consisting of four stocks with the following market values and betas:

Stock	Market value (Rs.)	Beta
Infosys	2,00,000	1.16
Wipro	1,00,000	1.20
M&M	1,50,000	0.80
TCS	50,000	0.50

If the risk free rate of interest is 9 percent and the market return is 15 percent, what is the portfolio's expected return as per CAPM approach? (10 Marks)

- 5 a. What are warrants? (03 Marks)
- b. Sachin wants to buy a company's stock and hold on it for five years. He estimates that Rs.3.50 dividend would be paid by the company continuously for the next five years. He hopes to sell the shares at Rs. 75 at the end of the fifth year. What is the present price? His required rate of return is 10%. (07 Marks)
- c. Explain the Dow theory. (10 Marks)
- 6 a. What is margin buying? (03 Marks)
- b. Write a brief note on efficient market hypothesis. (07 Marks)
- c. Vimal Enterprises has a beta of 1.5. The risk free rate is 7 percent and he expected return on the market portfolio is 14 percent. The company presently pays a dividend of Rs.2.50 per share and investors expect a growth in dividend of 12 percent per annum forever. Compute the required rate of return on the equity according to CAPM. What is the present market price of the equity share assuming the computed return as required return, if dividend valuation model is applied? (10 Marks)
- 7 a. What is ODD lot trading? (03 Marks)
- b. Write the Indian mutual fund industry. (07 Marks)
- c. The following three portfolio's provide the particulars given below:

Portfolio	Average annual return (in %)	Standard deviation (σ)	Correlation coefficient (γ)
A	18	27	0.8
B	14	18	0.6
C	15	8	0.9
Market	13	12	-

Riskfree rate of interest is 9%. Rank these portfolios using Sharpe's and Treynor's methods. (10 Marks)

8 Case Study :

Stocks X and Y display the following returns over the past three years:

Year	Return (%)	
	X	Y
2005	14	12
2006	16	18
2007	20	15

- a. What is the expected return on portfolio made up of 40% of X and 60% of Y? (05 Marks)
- b. What is the standard deviation of each stock? (05 Marks)
- c. Determine the correlation coefficient of stock X and stock Y. (05 Marks)
- d. What is the portfolio risk of a portfolio made up of 40% X and 60% Y. (05 Marks)

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