

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

- What is the standard deviation of the return on asset 1 and asset 2?
- What is the covariance between the returns on assets 1 & 2?
- 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.

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	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. The Historical Risk- Return of the two security is

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

Compute the risk and return of the portfolio.

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