**M.B.A. (Semester—IV) Examination**

**SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT**

**Paper—MBA/4102/CGF**

Time : Three Hours] [Maximum Marks : 70

**Note :**—(1) Figures to the right indicate marks.

(2) Attempt **ALL** questions.

(3) Annuity Tables showing future and present values and scientific calculator is permitted.

## SECTION—A

1. (a) Enumerate the listing requirements and why would an investor prefer listed stock to an unlisted one ? Are there any advantages to the Corporation in having a listed market ? 14

**OR**

(b) Distinguish between New Issue Market and Stock Market. Is their role complementary or competitive ? 14

## SECTION—B

2. (a) How does Markowitz Theory help in planning an investor's portfolio ? 7

(b) Stocks L and M have yielded the following returns for the past two years :

| Years | Return % | |
|---|---|---|
| | L | M |
| 2015 | 12 | 14 |
| 2016 | 18 | 12 |

(i) What is expected return on portfolio made up to 60% of L and 40% of M ?

(ii) Find out standard deviation of each stock. 7

**OR**

(c) Explain the significance of the covariance in calculating portfolio risk. 7

(d) Calculated the expected return and variance of a portfolio comprising two securities, assuming that the portfolio weights are 0.75 for security 1 and 0.25 for security 2. The expected return for security 1 is 18% and its standard deviation is 12% while the expected return and standard deviation for security 2 are 22% and 20% respectively, the co-relation between two securities 0.6. 7

3. (a) How can an investor earn riskless arbitrage ? Can the arbitrage exist forever in the market ? 7

(b) Vimal Enterprise has a beta of 1.5, the risk free rate is 7 percent and the 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 for many years to come. 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 ? 7

**OR**

(c) What is an efficient frontier ? How does it establish an optimum portfolio ? 7

(d) A security pays a dividend of Rs. 3.85 and sells currently at Rs. 83. The security is expected to sell at Rs. 90 at the end of the year. The security has a beta of 1.15. The risk free rate is 5 per cent and the expected return on market index is 12 per cent. Assess whether the security is correctly priced. 7

## SECTION—C

4. (a) What are charts ? How are they interpreted in Technical Analysis ? 7

(b) "Fundamental analysis provides an analytical framework for rational investment decision making." Explain. 7

**OR**

(c) Can stock prices have a support level and resistance level ? If so, explain. 7

(d) "The first step in industry analysis is to determine the stage of growth through which the industry is passing." Explain. 7

## SECTION—D

5. XYZ and ABC are the two mutual funds. XYZ has a sample mean of success .13 and fund ABC has a sample mean of success .18, with the riskier fund ABC having double the beta at 2.0 as fund XYZ. The respective standard deviations are 15% of ABC and 19% of XYZ. The mean return of market index is .12, while the risk free rate is 8%.

**Questions :**

(a) Compute the Jensen index for each of the funds. What does it indicate ? 4

(b) Compute the Treynor index for the funds. Intercept the results and compare it to the Jensen index. 5

(c) Compute the Share index for the funds and the market. 5