PG Odd Semester (CBCS) Exam. December, 2022

Business Administration

(3rd Semester)

Course No: FM-3102

(Security Analysis & Portfolio Management)

Full Marks: 70
Pass Marks : 28

Time: 3 hours

The figures in the right margin indicate full marks for the question.

1. "Instead of focussing too many on the markets, the economy, manager ratings, or the performance of an individual security, overlooking the fundamental principles can give the investors the best chance of success."— Discuss. 14

Or

2. "Different investment avenues have different features; few offer a fixed return and certain others offer stock market based returns and yet others do not have any kind of safety". Throw light on the above statement to discuss the various investment avenues available for Indian investors from the perspective of investment characteristics mostly looked for by the investors. 14

3. (a) "In practice, there are many complex factors which exert their influence on the market to settle the price of securities". Discuss. 7

   (b) "The rules and regulations, the changing scenario of the capital market necessitalised

the companies to seek for the support of many agencies to make the public issue a success" – In the light of above statement, discuss the number of agencies involved and their respective role in the issue of securities in the primary market. 7

4. (a) Compare and contrast current yield, yield to maturity and rate of return. 4

(b) (i) A 4 year maturity bond with a 14 percent coupon rate can be bought for ₹1200. What is the yield to maturity? 3

(ii) Suppose that the bond's yield to maturity had risen to 7 percent during the year. Show that its rate of return would have been less than the yield to maturity. 3

(iii) Suppose you buy the bond next year for ₹1017.37, and hold it for yet another year, so that at the end of that time it has only 1 year to maturity. Show that if the bond's yield to maturity is still 5.6 percent, your rate of return also will be 5.6 percent and the bond price will be ₹1,003.79. 4

Or

5. (a) "Growth companies may not be as well- known or recognised as growth stocks"— Elaborate. 4

(b) The Indian corporation anticipates a non-constant growth partner for dividends. Dividents at the end of year 1 are ₹1.80 per share and are expected to grow by 12 percent per year until the end of year 3 (that's two years of growth). After year 3, dividends are expected to grow at 7 percent as far as the company can see into the future. All dividends

Stock Price	Current Price	Expected Price	Expected Dividend
U	22	24	0.75
N	48	51	2.00
D	37	40	1.25

Plot your estimated returns on the graph from part (i) and indicate what actions would you take with regard to these stocks. Discuss your decisions. 6

Or

8. (a) Consider a three security portfolio and explain efficient and dominated portfolios. 4

(b) Consider the following three securities and relevant data on each :

	Stock-1	Stock-2	Stock-3
Expected Return	10	12	8
Standard Deviation	10	15	5
Correlation Cofficients	1,2=0.3	2,3= 0.4	1,3= 0.5

What are the portfolio risk and return if the following proportions are assigned to each stock?

Stock-1 = 0.20

Stock-2 = 0.40 and

Stock-3 = 0.40

10

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are to discounted back to present at a 10 percent rate (K_e= 10 percent)

(i) Project dividends from year 1 through 3 (the first year is already given). Round all values that you compute to two places to the right of the decimal point throughout this problem. 2

(ii) Find the present value of the dividend in part (i). 2

(iii) Project the dividend for the fourth year (D_4) 2

(iv) Find the present value of all future dividends, beginning with fourth year's dividend. The present value you find will be at the end of third year. 2

(v) Discount back the value found in part (iv) for three years at 10 percent. 1

(vi) Add together the values from parts (iv) and (v) to determine the present value of the stock. 1

6. (a) Would low correleation coefficients overtime between stock prices tend to prove or disprove the weak form of the efficient market hypothesis? 4

(b) (i) Compute the abnormal rates of return for the following stocks during period 't' (ignore differential systematic risk) 2

Stock	R_{it}	R_{mt}
B	11.5	4.0%
F	10.0	8.5
T	14.0	9.6
C	12.0	15.3
E	15.9	12.4

Rit = Return for stock i during period t.

Rmt = Return for the aggregate market during period 't'

(ii) Compute the abnormal rates of return for the five stocks in part (i) assuming the following systematic rick measures. 3

Stock	β_i
B	0.95
F	1.25
T	1.45
C	0.70
E	– 0.30

(iii) Compare the abnormal returns of part (i) and (ii) and discuss the reason for the difference in each case. 5

7. (a) Explain under what condition diversification can and cannot eliminate risk. 4

(b) (i) You expect on RFR of 10 percent and the market return (R_m) of 14 percent. Compute the expected (required) return for the following stocks, and plot them on an SML graph.

Stock	Beta
U	0.85
N	1.25
D	–0.20

4

(ii) You ask a stock broker what the firm's research department expects for the three stocks in part (i). The broker responds with the following information :