Seat No.: ________ Enrolment No.______________

GUJARAT TECHNOLOGICAL UNIVERSITY
M.B.A.- SEMESTER – III • EXAMINATION – WINTER 2012

Subject code: 830203 **Date: 26-12-2012**
Subject Name: Security Analysis and Portfolio Management
Time: 10:30 pm – 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)** Explain the meaning of investment? What do you mean by Trade-off between Expected Return and Risk? **07**

(b) Consider the two assets A and B for which returns (%) under different conditions of economy are given as below. Find the expected return and risk (as measured by standard deviation of return) of each asset. **07**

		Returns	
Conditions of Economy	Probability	Stock A	Stock B
Recession	0.10	- 18.0	-10.0
Below Average	0.20	-4.0	2.0
Average	0.40	12.0	8.0
Above Average	0.20	24.0	12.0
Boom	0.10	30.0	18.0
	1.00		

Q.2 **(a)** What is systematic risk? What are the different types of risk that make systematic market risk? **07**

(b) Explain the need of Fundamental Analysis in Security Analysis and Portfolio Management. Explain how the Economy-Industry-Company framework is used. **07**

OR

(b) The rate of return on the stock of MM and on the market portfolio for 6 periods has been as follows: **07**

Period	Return on the stock of MM (%)	Return on the market portfolio (%)
1	16	14
2	12	10
3	-9	6
4	32	18
5	15	12
6	18	15

(i) What is the beta of the stock of MM?
(ii) Establish the characteristic line for the stock of MM

Q.3 **(a)** A Rs 1,000,000 par six-year maturity bond with an 8 percent coupon rate (paid annually) currently sells at a yield to maturity of 7 percent. A portfolio manager wants to forecast the total return on the bond over the coming four years, as his horizon is four years. He believes that four years from now, two-year maturity bonds will sell at a yield of 5 percent and the coupon income can be reinvested in short-term securities over the next three years at a rate of 5 percent. What is the expected annualized rate of return over the four year period? **07**

(b) Explain Efficient Market Hypothesis and different forms of Market Efficiency? **07**

OR

Q.3 **(a)** Discuss portfolio management process and factors affecting portfolio performance? **07**

(b) The following information is available **07**

	Stock A	Stock B
Expected return	24%	35%
Standard deviation	12%	18%
Coefficient of correlation	0.60	

a. What is the covariance between stocks *A* and *B?*

b. What is the expected return and risk of a portfolio in which *A* and *B* are equally weighted?

Q.4 **(a)** Write Short Notes **07**

(a) Random Walk Theory
(b) Arbitrage Pricing Theory

(b) Explain the Key terms of Technical Analysis **07**

(a) Open
(b) High
(c) Low
(d) Close
(e) Open Interest
(f) Bid and Ask
(g) Support and Resistance

OR

Q.4 **(a)** What is the difference between Capital Market Line and Securities Market Line? **07**

(b) Explain Markowitz Portfolio Theory? **07**

Q.5 **(a)** What is the meaning of Capital Asset Pricing Model and write down its basic assumptions? **07**

(b) (a) If the risk free return is 8% and the return on market portfolio is 16%. Stock's beta is 1.2; its dividend and earnings are expected to grow at the constant rate of 10%. 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**

(b) The risk-free return is 9% and the expected return on a market portfolio is 12%. If the required return on a stock is 14%. What is its beta?

OR

Q.5 **(a)** What are the different investment alternatives provided by different financial markets? **07**

(b) Define mutual fund. State how does the mutual fund industry play a role in financial market? **07**

****