USN											20MBAFM303

Third Semester MBA Degree Examination, Dec.2023/Jan.2024
Investment Management

Time: 3 hrs.   Max. Marks:100

Note: *1. Answer any FOUR full questions from Q1 to Q7.*
2. Question No.8 is compulsory.

1 a. What do you understand by the term relative strength index? **(03 Marks)**
   b. Differentiate between investment and speculation. **(07 Marks)**
   c. The rates of returns of stock A and market portfolio for 15 periods are given below :

Period	Return on stock A(%)	Return on market portfolio (%)	Period	Return on stock A(%)	Return on market portfolio (%)
1	22	12	9	−8	1
2	13	14	10	13	12
3	17	13	11	14	−11
4	15	10	12	−15	16
5	14	9	13	25	8
6	18	13	14	9	7
7	16	14	15	−9	10
8	6	7			

What is the beta of the stock A? What is the characteristic line of stock A? **(10 Marks)**

2 a. What is efficient frontier? **(03 Marks)**
   b. Explain the various types of risks involved in investing in bonds. **(07 Marks)**
   c. The stocks of 'ABC' and 'XYZ' yield the following returns for the past two years.

Years	2018	2019
Returns on stock ABC	12%	18%
Returns on Stock XYZ	14%	12%

i)   What is the expected return on portfolio made up of 60% of ABC and 40% of XYZ
ii) Find out the standard deviation of each stock
iii) What is the covariance and co-efficient of correlation between stock ABC and XYZ?
iv) What is the portfolio risk of a portfolio made up of 60% of ABC and 40% of XYZ?
(10 Marks)

3 a. What is systematic and unsystematic risk? **(03 Marks)**
   b. Discuss the bond management strategies. **(07 Marks)**
   c. Two assets 'A' and 'B' have the following risk and return characteristic
   The return of 'A' is 22, return of 'B' is 20
   The standard deviation of 'A' is 15 and the standard deviation of 'B' is 18
   The correlation between A and B is −1.
   Determine the minimum risk portfolio for A and B. **(10 Marks)**

4 a. What is 'yield to maturity'? **(03 Marks)**

   b. Discuss the function of secondary market. **(07 Marks)**

   c. The following three portfolios provide the particulars given below :

Portfolio	Average annual return	S.D	Corr. Coefficient between market and portfolio
A	18	27	0.8
B	14	18	0.6
C	15	8	0.9
Market	13	12	–

   Risk free rate of interest is 9%

   i) Rank these portfolios using sharpe and Treynor's methods.

   ii) Compare both the indices. **(10 Marks)**

5 a. Who is a depository participant? **(03 Marks)**

   b. Explain the efficient market hypothesis. **(07 Marks)**

   c. A portfolio management service manages a stock fund consisting of 5 stocks with the following details :

Stock	Market value	Beta	Expected return
A	2,00,000	1.10	15%
B	1,00,000	0.75	14%
C	1,50,000	0.90	15%
D	2,50,000	1.20	16%
E	3,00,000	1.40	14%

   If risk free rate of return is 9%, expected return of the market is 15% then

   i) What is the expected return of the portfolio as per CAPM

   ii) Which stocks are undervalued or overvalued? **(10 Marks)**

6 a. What is money market? **(03 Marks)**

   b. State CAPM and its assumptions. **(07 Marks)**

   c. The return of ABC company at present is 21%. This is assumed to continue for the next 5 years and after that, it is assumed to have the growth rate of 10% indefinitely. The dividend paid for the year 2021-22 is 32%. The required rate of return is 20% and the present price is Rs. 57. What is the estimated price according to the two-stages model? **(10 Marks)**

7 a. Discuss the advantage of investing in mutual funds. **(03 Marks)**

   b. What is portfolio revision? What are the portfolio revision techniques? **(07 Marks)**

   c. Calculate the duration for bond 'A' and bond 'B' with 7% and 8% coupons having maturity period of 4 years. The face value is Rs.1000/-. Both the bonds are currently yielding 6%. **(10 Marks)**

8 Mr. David is constructing an optimum portfolio. The market return forecast says that it would be 13.5% for the next two years with the market variance of 10%. The risk free rate is 5%. The following securities are under review. Find out the optimal portfolio :

	α	β	σ_i^2
Anil	3.72	0.99	9.35
Avil	0.60	1.27	5.92
Bow	0.41	0.96	9.79
Viril	−0.22	1.21	5.39
Billy	0.45	0.75	4.52

(20 Marks)

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