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P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belgaum)

Fourth Semester – Master of Business Administration (MBA)

Semester End Examination; June/July - 2015

Portfolio Management

Time: 3 hrs *Max. Marks: 100*

***Note**: Answer **FOUR** full questions from **PART – A** and **PART – B** (Case Study) is compulsory.*

PART – A

1 a. What is portfolio management and explain the process Portfolio management. 10

b. A stock of box ltd performs relatively well to other stocks during the recessionally period. The stock of cox ltd on the other hand does well during the growth period, both the stocks are currently selling for ₹ 100 per share. The return of this stock for the next year would be as follows. 10

Particulars	Economic condition			
	High growth	Low growth	Stagnant	Recession
Probabilty	0.3	0.4	0.2	0.1
Return of box ltd	100	110	120	140
Return of cox ltd.	150	130	40	60

Calculate expected return and standard deviation of investing.

i) ₹ 1000 equity in box ltd.

ii) ₹ 1000 equity in cox ltd.

iii) ₹ 500 each in equity stock of box and cox ltd.

OR

2 a. What is Portfolio management strategies? What are approaches to portfolio management stategy? 10

b. Assume CAPM equilibrium model with ultimate borrowing and lending at the riskless rate of interest. Complete the blanks in the following table. 10

Security	ER	σ	β	e_i^2
A	0.15	?	2	0.1
B	-	0.25	0.75	0.04
C	0.09	?	0.5	0.17

Contd….2

3 a. What is meant by mutual fund? What are the advantages of mutual funds. 10

b. Assume yourself as a portfolio manager and with the help of the following details find out the securities that are overpriced and underpriced in terms of the security market line. 10

Security	Expected Return	Beta	Standard Deviation
A	0.33	1.7	0.5
B	0.13	1.4	0.35
C	0.26	1.1	0.4
D	0.12	0.95	0.24
E	0.21	1.05	0.28
F	0.14	0.7	0.18
Nifty Index	0.13	1	0.2
T Bills	0.09	0	0

OR

4 a. Define risk? What are different types of risk. 10

b. Joey did an investment analysis for stock X. The results of the analysis are as follows. The market price of risks or Bi and sensitivities for a particular stock are given below. Rf = 5% 10

Factor	λ	b_I
Interest rate risk	0.9	0.9
Purchasing power risk	0.9	1.8
Management risk	1.3	1.6
Market Risk	0.8	-1.75

The probability of getting return on X stock is given below.

Return in %	Probability in %
15	40
20	30
10	20
8	10

Can an investor purchase stock X?

5 a. What is CAPM? What are the assumptions of CAPM and APT model. 10

b. Stocks X and Y displayed the following return for past 3 years. 10

Year	Returns	
	X	Y
2005	14	12
2006	16	18
2007	20	15

Contd….3

i) What is expected return on portfolio made up of 40% of X 60% of Y?

ii) What is SD of each stock?

iii) Determine correlation co-effficient of stock X and Y.

iv) What is expected risk on portfolio made up of 40% of X 60% of Y.

OR

6 a. What is Regulatory Frame Work AMC. What are different types of mutual fund schemes. 10

b. You are given the following information and asked to choose the best portfolio for your client.

Portfolio	Beta	Correlation of the return with the index return
A	1.3	1
B	-0.07	-0.8
C	1.1	0.7

10

Note:

i) The client wants a portfolio without unsystematic risk.

ii) He wants you to suggest the highest yielding return portfolio in the normal market condition based on CAPM. Hh needs an explaiation for it.

7 a. Write, i) a note on Efficient frontier

ii) Differentiate SML and CML. 10

b. Following data gives the market return and the XYZ Company's scrip return for a particular period.

Index Return	0.50	0.60	0.50	0.60	0.80	0.50	0.80	0.40	0.70
Scrip Return	0.30	0.60	0.40	0.50	0.60	0.30	0.70	0.50	0.60

10

i) What is the beta value of the XYZ company scrip.

ii) If the market return is 2, what would be the scrip return.

OR

8 a. Discuss the following heuristic – driven biases and cognitive errors.

i) Representativeness

ii) Overconfidence 10

iii) Anchoring

iv) Familiarity

b. What is Behavioral Finance? What are Strategies for overcoming psychological biasis? 10

Contd….4

PART – B

Case Study (Compulsory)

9. Mr. David constructing optimum return of portfolio, the market return forecast says that it could have 13.5% for the next 2 years. If the market variance is 10%, the riskless ROR is 5% following securities are under review. Find optimum portfolio. 20

Company	α	B	σ_{ei}^2
A	3.72	0.99	9.35
B	0.60	1.27	5.92
C	0.41	0.96	9.79
D	-0.22	1.21	5.39
E	0.45	0.75	4.52

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