16/17MBAFM303

Third Semester MBA Degree Examination, June/July 2019
Investment Management

Time: 3 hrs.　　　　　　　　　　　　　　　　　　　　　　　Max. Marks:80

Note: 1. *Answer any Four questions from Q.No. 1 to Q.No. 7.*
　　　　2. *Question No. 8 is compulsory.*
　　　　3. *Present value Tables can be provided.*

1	a.	Describe Sweat Equity. What are the reasons for issuing sweat equity? **(02 Marks)**
	b.	Explain Rupee Cost Averaging. What are its benefits? **(06 Marks)**
	c.	Explain the advantages of investing in Mutual funds. What are the different mutual fund schemes available in India? **(08 Marks)**
2	a.	Define the new issues market. **(02 Marks)**
	b.	Explain the functions of the lead managers, registrars and underwriters. **(06 Marks)**
	c.	Explain the functions of Stock Exchange. **(08 Marks)**
3	a.	What is Risk? Explain the different types of risk. **(02 Marks)**
	b.	The returns on securities 'A' and 'B' are given below :

Probability	Security 'A'	Security 'B'
0.5	4	0
0.4	2	3
0.1	0	3

　　　Calculate Expected return, Variance and Standard Deviation of Security 'A' and 'B'. Give the security of your preference. The security has to be selected on the basis of return and risk. **(06 Marks)**

　　c. Following data give the market return and the 'ABC' Scrip's return for a particular period.

Index Return	0.5	0.6	0.5	0.6	0.8	0.5	0.8	0.4	0.7
Scrip Return	0.30	0.60	0.40	0.50	0.60	0.30	0.70	0.50	0.60

　　　Calculate the Beta value of 'ABC' Company Scrip. **(08 Marks)**

　4 a. Mr. 'X' considers Rs 1000 par value bond bearing a coupon rate of 11% that matures after 5 years. He wants a minimum yield to maturity of 15% [Fifteen percent]. The bond is currently sold at Rs 870. Should he buy the bond? **(02 Marks)**

　　b. The return of 'ABC' company at present is 21% [Twenty one percent]. This is assumed to continue for the next five years and after that it is assumed to have a growth rate of 10% [Ten percent] indefinitely. The dividend paid for the year 2014 – 15 is 32% [Rs 3.2]. The required rate of return is 20% and the present price is Rs 57. What is the estimated price according to the two stage model? **(06 Marks)**

　　c. "XYZ" Company stock is currently selling at Rs 25 per share. The stock is expected to pay Rs 1 as dividend per share at the end of the next year. It is reliably estimated that the stock will be available for Rs 29 at the end of one year.
　　　Calculate : i) Is it advisable to buy at the present price? His required rate of return is 20%.
　　　ii) If the investor requires 15% return when the dividend remains constant what should be the price at the end of the first year? **(08 Marks)**

5 a. What is a Point and figure chart and how it is used? **(02 Marks)**

b. How does technical analysis differ from Fundamental Analysis? **(06 Marks)**

c. Explain the key industry factors and company factors that need to be studies in Fundamental Analysis. **(08 Marks)**

6 a. How does RSI indicate the technical strength and weakness of the stock price movement? **(02 Marks)**

b. Two Assets 'A' and 'B' have the following risk and return characteristics :

$R_a = 22$, $R_b = 20$, $\sigma_a = 15$, $\sigma_b = 18$, $r_{ab} = -1$.

Determine the minimum risk portfolio for 'A' and 'B'. **(06 Marks)**

c. The expected rates of return and the possibilities of their occurrence for 'ABC' company and 'XYZ' company are given below :

Probability of Occurrence	Return on 'ABC' Scrip	Return on 'XYZ' Scrip
0.05	- 2.0	-3.0
0.20	9.0	6.0
0.50	12.0	11.0
0.20	15.0	14.0
0.05	26.0	19.0

Calculate : i) Expected rates of return of 'ABC' and 'XYZ' scrips.

ii) If an investor invests equal proportion on both the scrip what would be the return? If the proportion is changed to 25% and 75% and then to 75% and 25% what would be the expected rates of return? **(08 Marks)**

7 a. The below mentioned information in provided regarding the performance of the funds for a period of six months. The risk free rate of interest is assumed to be 9% Rank them with the help of Sharpe Index and Interpret. **(02 Marks)**

Fig.Q7(a)

Fund	R_P (%)	σ_P	β
'ABC'	25.38	4	0.23
'XYZ'	25.11	9.01	0.56
'PQR'	25.01	3.55	0.59

b. Mr 'X' is having units in a mutual fund for the past three years. He wants to evaluate its performance by comparing it to the market. i) Find out Sharpe and Treynor indices and Interpret. ii) The risk free rate is 12%. **(06 Marks)**

	Fund	Market
Return	70.60%	41.40%
Standard Deviation	41.31	19.44
Beta (β)	1.12	1

c. The following results were obtained from a study for a period of six months in 2015. Using the inputs , rank the funds according to the predictive ability of the fund's Management. **(08 Marks)**

	R_p (%)	σ_p	β
'ABC'	25.38	4.0	0.23
'XYZ'	36.28	6.86	0.52
'LMN'	45.56	4.31	0.63
S & P CNX 500	36.74	3.69	1.00
R_f	9.00	-	-

8 **CASE STUDY** :

Stocks 'LMN' and 'PQR' have yielded the following returns for the past two years.

Years	Return (%)	
	LMN	PQR
2014	12	14
2015	18	12

i)   Calculate the expected return on portfolio made up of 60% of LMN and 40% of PQR.

(04 Marks)

ii)   Find out the Standard Deviation of each stock.   (04 Marks)

iii)   Calculate the covariance and co-efficient of correlation between stock LMN and PQR.

(04 Marks)

iv)   Calculate Portfolio Risk of a Portfolio made up of 60% of LMN and 40% of PQR.

(04 Marks)

*****