CBCS SCHEME

USN | | | | | | | | | | |

18MBAFM302

Third Semester MBA Degree Examination, Jan./Feb. 2021
Investment Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to 7.***
2. ***Q.No. 8 is compulsory.***
3. ***Use of P.V. tables are permitted.***

1 a. What does $\beta = +2.0$ indicate? **(03 Marks)**

b. Explain the various stages of Investment Process in detail. **(07 Marks)**

c. On the basis of the following data given below, calculate i) Beta (β) and ii) Alpha (α).

Day	NasdaQ points	Microsoft rate
1	904.95	597.80
2	845.75	570.80
3	874.25	582.95
4	847.95	559.85
5	849.10	554.60
6	835.80	545.10
7	816.75	519.15
8	843.55	560.70
9	835.55	560.95
10	839.50	597.40

(10 Marks)

2 a. What is a Fund of Funds (FoF)? **(03 Marks)**

b. What is Risk? Explain the different types of systematic and unsystematic risks. **(07 Marks)**

c. Stocks L & M have yielded the following returns for the past two years :

Years	Return %	
	L	M
2011	12	14
2012	18	12

Calculate :
i) What is the expected return on a port folio made up of 60% of L and 40% of M?
ii) Find out the standard deviation of each stock.
iii) What is the Covariance and Co-efficient of correlation between stocks L and M?
iv) What is the port folio risk of a port folio made up of 60% of L and 40% of M?

(10 Marks)

3 a. What is Markowitz efficient frontier? **(03 Marks)**

b. Explain the various levels of information and the forms of markets according to Efficient Market Hypothesis (EMH). **(07 Marks)**

c. The following 3 port folios provide the particulars given below, the risk free rate of interest is 9%. With the help of the given data :

i) Rank these port folios using Sharpe's and Treynor's methods.
ii) Compare both the indices.

Port folio	Average Annual return	Standard deviation	Correlation co-efficient (Market & Port folio)
A	18	27	0.8
B	14	18	0.6
C	15	08	0.9
Market	13	12	-

(10 Marks)

4 a. What is Technical Analysis? **(03 Marks)**
b. Explain the DoW theory with reference to the hypotheses and various trends. **(07 Marks)**
c. Calculate the duration for Bond A and Bond B with 7% and 8% coupons, having a maturity period of 4 years. The face value is Rs 1000/-. Both the bonds currently yield 6%. **(10 Marks)**

5 a. What is the formula used for Characteristic Regression Line (CRL) model? **(03 Marks)**
b. Explain the various Bond Portfolio Management Strategies. **(07 Marks)**
c. VRW & Co has common shares outstanding in the market with price earnings ratio of 15. The annual expected growth in earnings, dividends and price is 7%. The earnings per share is Rs 2.5, the dividend payout is 60% and the investor wants to hold the stock for 4 years. The required rate of return is 15%. What would be the present value? **(10 Marks)**

6 a. Mention the formula for port folio standard – deviation according to Markowitz model. **(03 Marks)**
b. Explain in detail, the various types of Mutual funds based on various parameters. **(07 Marks)**
c. Assume you are a Portfolio Manager, based on the following details, determine the securities that are overpriced and those that are underpriced in terms of the SML.

Security	Actual return	β	σ
A	0.33	1.7	0.50
B	0.13	1.4	0.35
C	0.26	1.1	0.40
D	0.12	0.95	0.24
E	0.21	1.05	0.28
F	0.14	0.70	0.18
Nifty index	0.13	1.00	0.20
T - bills	0.09	0	0

(10 Marks)

7 a. Mention the formula for Basic Jensen's Performance Index. **(03 Marks)**
b. Explain any 4 chart patterns in Technical Analysis of Securities. **(07 Marks)**
c. The PMW Investment Company manages a stock fund consisting of 4 stocks with the following market values and betas : If the risk – free rate of interest is 8% and the market return is 15%, what is the port folio's expected return? **(10 Marks)**

Stock	Market value in (Rs)	Beta
Bell	2,00,000	1.16
Sell	1,00,000	1.20
Grill	1,50,000	0.80
Shrill	50,000	0.50

8 **CASE STUDY [Compulsory] :**

Assume you are an Investment Manager, you need to guide Mr. MVW, based on the following details :

The expected return of the market is 15%, the equity's beat is 1.2 and the risk – free rate of interest is 8%, further the following Macro economic factors were also observed.

Factor	Market Price of risk (%)	Sensitivity Index
Inflation	6	1.1
Industrial Production	2	0.8
Risk Premium	3	1.0
Interest rate	4	-0.9

The guidance to Mr. MVW should be in terms of

a. Assumptions of CAPM. **(06 Marks)**

b. Return of the stock using CAPM. **(06 Marks)**

c. Return of the stock using APT model. **(06 Marks)**

d. Explanation for the difference of return based on CAPM as compared to APT model. **(02 Marks)**

CMR INSTITUTE OF TECHNOLOGY CMR BANGALORE

*****