CBCS SCHEME

20MBAFM303

USN

Third Semester MBA Degree Examination, Feb./Mar. 2022
Investment Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

1 a. Define investment. **(03 Marks)**
b. What are the characteristics that an investor would like to have in an investment option. **(07 Marks)**
c. Describe briefly the important investment avenues available to investors in India. **(10 Marks)**

2 a. What is Beta? How it is interpreted?. **(03 Marks)**
b. "Financial risk is a function of financial leverage". Explain. **(07 Marks)**
c. Calculate the expected return and the standard deviation of returns of a stock having the following probability distribution of returns:

Possible returns (in percent)	Probability of occurance
-25	0.05
10	0.10
0	0.10
15	0.15
20	0.25
30	0.20
35	0.15

(10 Marks)

3 a. What do you mean by duration of the Bond? **(03 Marks)**
b. A bond pays interest annually and sells for Rs.835. It has six years left to maturity and a par value of Rs.1000. What is its coupon rate if its promised YTM is 12 percent? **(07 Marks)**
c. Max Ltd. has a 14 percent debenture with a face value of Rupees 100 that matures at par in 15 years. The debenture is callable in five years at Rupees 114. It currently sells at Rupees 105. Calculate each of the following for this debentures:
(i) Current yield (ii) YTC (iii) YTM. **(10 Marks)**

4 a. What are price charts? **(03 Marks)**
b. Explain the basic principles and hypothesis of Dow theory. **(07 Marks)**
c. "The Elliot wave theory is based on the principle that action is followed by reaction". Elucidate. **(10 Marks)**

5 a. What do you mean by capital asset pricing model? **(03 Marks)**
b. Given the following information :

Particulars	Portfolios			
Beta	1.10	0.8	1.8	1.4
Return (percent)	14.5	11.25	19.75	18.5
Standard deviation (percent)	20.0	17.5	26.3	24.5

Risk free rate of return = 6 percent
Market return = 12 percent
Calculate : (i) Sharpe Ratio (ii) Treynor Ratio (iii)Jensen Ratio **(07 Marks)**

c. The following data are available to you as a portfolio manager:

Security	Estimated Return (percent)	Beta	Standard deviation (percent)
A	30	2.0	80
B	25	1.5	40
C	20	1.0	30
D	11.5	0.8	25
E	10.0	0.5	20
Market Index	15.0	1.0	18
Govt. Security	7	0	0

(i) In terms of the security market line, which of the securities tested are under priced?

(ii) Assuming that a portfolio is constructed using equal proportions of the 5 securities listed above, calculate the expected return and risk of such a portfolio. **(10 Marks)**

6 a. What is the need for portfolio revision? **(03 Marks)**

b. "Portfolio evaluation essentially comprises two functions, performance measurement and performance evaluation". Discuss. **(07 Marks)**

c. Consider a portfolio composed of five securities. All the securities have a beta of 1.0 and standard deviation of 25 percent. The portfolio distributes weight equally among its component securities. If the standard deviation of the market index is 18 percent, calculate the total risk of the portfolio. **(10 Marks)**

7 a. What is differential return? **(03 Marks)**

b. Describe the different situations where evaluation of performance of portfolios becomes necessary. **(07 Marks)**

c. Discuss the different types of charts used in Technical analysis. **(10 Marks)**

8 ST and BT companies shares are presently sold at Rupees 60 and Rupees 100 respectively. Annual dividends over the next year are expected to be 1.5 and 2.5 Rupees respectively. ST Companys projected EPS is Rs.2.5 and BT's Company's EPS is Rs.4. ST's companies dividends are expected to grow at 10% per annum in the failure and BT's by 9%. Financial analysis have estimated the likely prices for the year ahead on 2 stocks to be Rs.66, Rs.72, Rs.75 for ST and Rs.114, Rs.126 and Rs.132 for BT.

a. You are asked to examine the return of each Company's stock. Choose one stock to be purchased for a holding period of one year. Support your choice.

b. If investor required rate of return is 12% and he wants to hold the stock for a longer period, which stock would you suggest? Why? **(20 Marks)**

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