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## M. B. A. (Third Semester) Examination, Nov.-Dec. 2021

**(New Scheme)**

**Specialization : Finance Management**

**(Management Branch)**

## SECURITY ANALYSIS and PORTFOLIO MANAGEMENT

***Time Allowed : Three hours***

***Maximum Marks : 80***

***Minimum Pass Marks : 32***

*Note : Part (a) of each unit is compulsory. Solve any **one** from (b) and (c).*

### Unit-I

1. (a) Define securities? Give a brief account of different types of securities? How do common stocks differ from preference stock? 8

(b) "No Investment is Risk free", explain? What are the different types of Investment Risk? Which one of them can be minimized? 8

(c) An Investor has analysed a share for 1 year holding period. The share is currently selling for Rs. 43 but pays no dividend and there is fifty-fifty chance that it will sell for either Rs. 55 or Rs. 60 by the year end. What is the expected return and risk if 250 shares are acquired with 80% borrowed funds? The funds are borrowed at 12% 8

## Unit-II

2. (a) Define Technical Analysis. On what premise a technical analysis is done? Explain how is it represented with example of each chart type? 8

(b) Critically examine the Dow Theory. 8

(c) A share is currently selling for Rs. 65. The company is expected to pay a dividend by Rs. 2·50 on the share at the end of the year. It is reliably estimated that the share will sell for Rs. 78 at the end of the year.





(i) Assuming that the dividend and price forecasts are accurate; would you buy the share to hold it for 1 year if your required rate of return were 12%.

(ii) Given the current price of Rs. 65 and the expected dividend of Rs. 2·50, what would the price have to be at the end of 1 year to justify purchase of the share today, if your required rate of return were 15%? 8

## Unit-III

3. (a) Discuss Fundamental Analysis in brief. 8

(b) Explain in brief Efficient Market Hypothesis with relevant example. 8

(c) Explain the various Forecasting Techniques used in Economic Analysis. 8

## Unit-IV

4. (a) Draw the Markowitz Portfolio Selection Model. 8

(b) Elucidate the process of reduction of portfolio risk through diversification. 8

(c) You are thinking about investing your money in the stock market. You have the following two stock in mind : stock A and stock B. You know that the economy can either go in recession or it will boom. Being an optimistic investor, you believe the likelihood of observing an economic boom is two times as high as observing an economic depression. You also known the following about your two stocks :

| **State of the Economy** | $R_A$ | $R_B$ |
|---|---|---|
| Boom | 10% | –2% |
| Recession | 6% | 40% |

(i) Calculate the expected return for stock A and stock B.

(ii) Calculate the total risk (variance and standard deviation) for stock A and for stock B.

(iii) Calculate the expected return on a portfolio consisting of equal proportions in both stocks.

(iv) Calculate the expected return on a portfolio consisting of 10% invested in stock A and the remainder in stock B. 8





## Unit-V

5. (a) Define the Sharpe Single Index Model and explain how one can measure the returns and risk of a security under this model. 8

(b) The estimated rates of return and beta coefficients of some securities are given below : 8

| Security | Estimated Returns | Beta |
|---|---|---|
| (i) A | 30 | 1·6 |
| (ii) B | 24 | 1·4 |
| (iii) C | 18 | 1·2 |
| (iv) D | 15 | 0·9 |
| (v) E | 15 | 1·1 |
| (vi) F | 12 | 0·7 |

(c) Explain the need for portfolio revision. How A Portfolio can be evaluated using Sharpe Ratio and Treynor Ratio? 8