



Name:
Enrolment No:

UPES

End Semester Examination, December 2024

Course: Security Analysis and Portfolio Management
Program: BBA Core
Course Code: FINC 2075

Semester : III
Time : 03 hrs.
Max. Marks: 100

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q 1	What is the coefficient of variation used for in investment analysis?		
a)	A) Measure the spread of returns B) Assess the efficiency of markets C) Evaluate the risk-adjusted return D) Estimate the market risk premium	2	CO1
b)	According to Dow Theory, what do advances and declines indicate in stock prices? A) Market volatility B) Investor sentiment C) Sector performance D) Economic indicators	2	CO1
c)	In portfolio analysis, what does the Markowitz portfolio model aim to achieve? A) Evaluate risk and return B) Minimize risk and return C) Diversify risk and return D) Maximize risk and return	2	CO1
d)	What do indifference curves represent in portfolio theory? A) Market efficiency levels B) Return expectations of investors C) Risk-free assets D) Risk preferences of investors	2	CO1
e)	What is the Capital Asset Pricing Model (CAPM) used for in portfolio construction? A) Determine the expected return of individual securities B) Identify undervalued stocks C) Calculate the risk-free rate	2	CO1

	D) Estimate the cost of equity capital								
f)	<p>What does the Security Market Line (SML) represent?</p> <p>A) Expected returns based on risk-free assets B) Required returns based on systematic risk C) Performance evaluation metrics D) Market efficiency levels</p>	2	CO1						
g)	<p>What is the concept of Performance Evaluation in investment analysis?</p> <p>A) Assessing the efficiency of market prices B) Evaluating the risk-return tradeoff of a portfolio C) Comparing actual returns to benchmark returns D) Estimating future market trends</p>	2	CO1						
h)	<p>How does Sharpe's Ratio measure portfolio performance?</p> <p>A) By comparing risk-adjusted returns to the risk-free rate B) By analyzing market trends C) By evaluating company fundamentals D) By assessing price volatility</p>	2	CO1						
i)	<p>What is the Treynor's Ratio used for in portfolio analysis?</p> <p>A) Measuring risk-adjusted returns relative to market returns B) Evaluating individual security performance C) Assessing portfolio liquidity D) Calculating market risk premiums</p>	2	CO1						
j)	<p>What is the primary goal of portfolio revision?</p> <p>A) Maximize short-term gains B) Minimize portfolio risk C) Align the portfolio with investment goals D) Beat market benchmarks</p>	2	CO1						
SECTION B 4Qx5M= 20 Marks									
Q. 2	<p>An investor is analyzing a stock that paid a dividend of \$3 last year. The dividends are expected to grow at a steady rate of 7% per year. If the investor requires an 8% return, calculate the stock's value.</p>	5	CO2						
Q.3	<p>In a certain capital market characterised by CAPM-equilibrium, two risky stocks, P and Q are traded amongst a multitude of other financial assets. In this market the risk-free rate of return is 6% and the market risk premium is 4%. The risk of the market portfolio (as σ) is 8%. Calculate the Systematic risk of the stocks P and Q.</p> <p>The characteristics of P and Q are:</p> <table style="margin-left: 20px;"> <tr> <td>Stock</td> <td>P</td> <td>Q</td> </tr> <tr> <td>Expected return</td> <td>8%</td> <td>12%</td> </tr> </table>	Stock	P	Q	Expected return	8%	12%	5	CO2
Stock	P	Q							
Expected return	8%	12%							

	σ of return	7%	12%																		
Q.4	A firm has an expected dividend payout ratio of 30 percent, a required rate of return of 13% and an expected dividend growth rate of 6%. Calculate the firm's fundamental leading P/E ratio.			5	CO2																
Q.5	Describe the importance of liquidity risk management.			5	CO2																
SECTION-C 3Qx10M=30 Marks																					
Q.6	Capital markets are not only the barometer of the economic growth but are also extremely important for the growth of an economy". Do you agree with the statement? Explain in the light of the growth in the Indian capital markets.			10	CO3																
Q.7	A Rs. 100 par value bond bearing a coupon rate of 11 percent mature after five years. The Expected yield to maturity is 15percent. The present market price of the bond is Rs. 82. Can the investor buy it or not?			10	CO3																
Q.8	Consider the following information for three mutual funds A, B and C and the market. <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Beta</th> <th>Market Return (%)</th> <th>Standard Deviation (%)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>1.1</td> <td>12</td> <td>18</td> </tr> <tr> <td>B</td> <td>0.9</td> <td>10</td> <td>15</td> </tr> <tr> <td>C</td> <td>1.2</td> <td>13</td> <td>20</td> </tr> </tbody> </table> <p>The mean risk-free rate was 6 percent. Calculate the Treynor measure, Sharpe measure and Jensen measure for the three mutual funds.</p>				Beta	Market Return (%)	Standard Deviation (%)	A	1.1	12	18	B	0.9	10	15	C	1.2	13	20	10	CO3
	Beta	Market Return (%)	Standard Deviation (%)																		
A	1.1	12	18																		
B	0.9	10	15																		
C	1.2	13	20																		
SECTION-D 2Qx15M= 30 Marks																					
Q.9	<p>Scenario: A financial advisor is evaluating asset allocation options for a client with moderate risk tolerance and a medium-term investment horizon of 10 years. The client has \$100,000 to invest and wants a diversified portfolio with domestic stocks, corporate bonds, and fixed-income securities.</p> <p>Question:</p> <p>1. Expected Return Calculation: Given the following expected returns for each asset class: Domestic Stocks: 8% per year, Corporate Bonds: 5% per year, Fixed-Income Securities: 3% per year.</p> <p>Calculate the expected return for each potential allocation mix: Option A: 60% in Domestic Stocks, 40% in Corporate Bonds, Option B: 40% in Domestic Stocks, 60% in Corporate Bonds, Option C: 50% in Domestic Stocks, 50% in Corporate Bonds,</p>			15	CO4																

	<p>2. Risk Evaluation:</p> <p>The estimated standard deviation (risk) for each asset class is as follows: Domestic Stocks: 12%, Corporate Bonds: 6%,</p> <p>Assuming the allocation in each option is independent,</p> <p>calculate the portfolio standard deviation for each option using the weights provided.</p> <p>Assume correlations between asset classes as follows: Domestic Stocks and Corporate Bonds: 0.4,</p> <p>II. Portfolio Allocation Recommendation:</p> <p>Based on the calculated expected return and portfolio risk (standard deviation) for each option:</p> <p>Which option (A, B, or C) would you recommend based on the client’s moderate risk tolerance and 10-year investment horizon?</p> <p>Justify your recommendation by discussing how the chosen allocation aligns with the client's risk tolerance, investment goals, and the anticipated returns over the 10-year horizon.</p>		
Q.10	<p>Critically analyze the role of financial ratios (such as P/E ratio, debt-to-equity ratio, and return on equity) in fundamental analysis. How can these ratios provide a comprehensive view of a company’s financial health, and what limitations do they have in accurately reflecting a company's future performance?</p> <p style="text-align: center;">Or</p> <p>Explain the principles of technical analysis. describe the importance of trend identification. How can recognizing uptrends, downtrends, and sideways trends aid investors in making strategic decisions?</p>	15	CO4