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2013

MASTER OF BUSINESS ADMINISTRATION

[Third Semester Examination]

PORTFOLIO MANAGEMENT

(Specialisation : *Financial Management*)

PAPER—F 305

Full Marks : 100

Time : 3 hours

The figures in the right-hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Illustrate the answers wherever necessary

Write the answers to Questions of each Half in separate books

(*Turn Over*)

FIRST HALF

[*Marks* : 50]

1. Answer any *four* of the following : 5 × 4

(*a*) Discuss the role of a portfolio manager.

(*b*) Write a note on market risk.

(*c*) Stock *X* and Stock *Y* have the following details :

Particulars	Stock *X*	Stock *Y*
Expected Returns (%)	15	20
Expected Various	9	16
Covariance XY	12	

Is there any advantage of holding this portfolio ? Why or why not ?

(*d*) What do you mean by diversification ? What are the problems of vast diversification ?

(*e*) Discuss the selection of appropriate securities in a portfolio through sharpes optimal portfolio model.

(*f*) State the limitations of Markowitz model.

2. Answer any *two* questions : 10 × 2

(*a*) Discuss the process of initial investment strategy and portfolio allocation in any investment portfolio process.

(*b*) If Stock X and Stock Y have yielded the following returns for the past two years :

Year	Return (%)	
	X	Y
2011	18	21
2012	27	18

(*i*) What is the expected return on portfolio made upto 60% on X and 40% on Y.

(*ii*) Find out the stand-alone risk of the securities.

(*iii*) Calculate the portfolio risk with 60% of X and 40% of Y.

(*c*) Write note on Markowitz's efficient frontier.

[*Internal Assessment* : 10 Marks]

SECOND HALF

[*Marks* : 50]

3. Answer any *four* of the following : 5 × 4

(*a*) Write a short note on portfolio revision. 5

(*b*) What do you understand by formula plans ? How do they help investors ? 3 + 2

(*c*) Explain in brief the Security Market Line. 5

(*d*) Write a brief note on the non-risk adjusted measures for portfolio evaluation. Is it better than the risk-adjusted measures ? Give your views. 3 + 2

(*e*) How NAV of a scheme of mutual fund is calculated ? Illustrate your answer. 3 + 2

(*f*) Make a comparison between open-ended and closed-ended mutual funds. What do you understand by entry and exit load in the context of mutual funds ? 3 + 2

2. Answer any *two* of the following : 10 × 2

(*a*) Mrs. Kamala Kar is planning to create a portfolio comprising of aggressive and defensive securities. In order to understand the timing of investment or liquidation, she decides to stick to the current ratio plan with a revision point of +/– 5%.

You are required to discuss the portfolio revision strategy on the basis of the following given information :

(*i*) Total initial investment of Rs. 3,00,000 is divided between the aggressive and defensive portfolio in the ratio of 3 : 2.

(*ii*) The price of the share changes as follows :

Day 0 : Rs. 60·00
Day 1 : Rs. 56·00
Day 2 : Rs. 54·00
Day 3 : Rs. 58·00
Day 4 : Rs. 62·50
Day 5 : Rs. 63·00

How will your answer change if the investor decides to change to the constant rupee plan ? Show detailed calculations. 5 + 5

(*b*) (*i*) The evaluation of a portfolio can be done at different levels-at the personal level, fund managers' level and organisational level. Elaborate the statement.

(*ii*) You are thinking of investing in a mutual fund. The following information regarding four different funds is given to you :

Fund	Standard deviation (%)	Portfolio beta	Average return during last three months (%)
Wise	15	1·55	21
Intelligent	18	1·85	18·5
Diligent	13·50	1·30	19
Ambitious	19	1·50	20

It is given that the risk-free rate of return is 7·50%.

With the help of necessary calculations, decide in which fund will you invest if the criterion for your decision is Treynor's ratio and Sharpe's ratio. 4 + 6

(*c*) (*i*) Explain the term 'value investing'.

(*ii*) Mr. Deb Kumar needs funds for his daughter's marriage. He is thinking of disposing off his mutual fund units depending on the financial needs.

Mr. Kumar approaches you and tells that he wants to sell off the poor performing funds first and hold the good ones. You are required to guide the investor about his strategy using the Jensen's measure on the basis of the following information :

Fund	Standard deviation (%)	Portfolio Beta	Portfolio return (%)
A	15	1·25	18
B	13·5	1·50	16
C	17	1·80	21
D	11·5	1·0	13

The risk-free rate of return is 7·50% 4 + 6

[*Internal Assessment* : 10 Marks]