M.Com. 4th Semester Examination, 2012

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

PAPER – COM-403

Full Marks : 50

Time : 2 hours

Answer **all** questions

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

UNIT – I

1. Answer any *two* questions from the following : 5 × 2

(*a*) Draw a Point and Figure (P & F) chart on the basis of the following information of closing

share price of a particular company.

Day	Price (in Rs.)	Day	Price (in Rs.)
1	25	7	21
2	27	8	22
3	26	9	20
4	28	10	23
5	24	11	20
6	22	12	21

Take Box size as Re.1 and Reversal criterion as Rs. 3. What is the major limitation of this chart ? 4 + 1

(*b*) Differentiate between systematic and unsystematic risks. 5

(*c*) During the past five years, the returns of a stock were as follows : 5

Year	Return
1	0·07
2	0·03
3	– 0·09
4	0·06
5	0·10

Compute the standard deviation. Also compute the coefficient of variation. Which measure is more suitable for risk ?

(*d*) Give the examples of non-financial information used in the company-level analysis of the fundamental analysis. 5

2. Answer any *one* question from the following : 10 × 1

(*a*) (*i*) Which are the different types of moving averages used in technical analysis ? Discuss, in brief.

(*ii*) Write a short note on 'oscillator' as a technical analysis tool. 6 + 4

(*b*) Give a tabular presentation on the earnings distribution of a company starting from sales and finishing at Retained earnings from the view point of fundamental analysis, identifying the macro-economic, industry and company specific factors influencing various stages. 10

UNIT – II

3. Answer any *two* questions from the following : 5 × 2

(*a*) What is Capital Market Line ? Discuss the difference between Capital Market Line and Security Market Line. 2 + 3

(*b*) An investor wishes to construct a portfolio which consists of placing 60 % of his available funds into the shares of company *X* and the other 40 % into the shares of company *Y*. Companies *X* and *Y* have the following expected returns and risk :

$$E(R_X) = 30\ \% \qquad E(R_Y) = 10\ \%$$

$$\sigma_X = 12\ \% \qquad \sigma_Y = 3\ \%$$

Calculate the portfolio's risk if the correlation coefficient between the returns on the shares of the two companies are : 5

(*i*) + 0·5 ;

(*ii*) 0 ;

(*iii*) − 1.

(*c*) Stock *A* has an expected return of 7·80% and a beta of 0·70. Stock *B* has an expected return of 10·20% and a beta of 1·3.

(*i*) Plot the security market line.

(*ii*) What is the expected return on security *C* having a beta of 1.10 ? If the actual return on security *C* is 9·75%, plot it on the diagram and cite with reasons whether it is a good-performing or a poor-performing stock. 2 + (2 + 1)

(*d*) Write a short note on the risk-adjusted measures for portfolio evaluation. 5

4. Answer any *one* question from the following : 10 × 1

(*a*) Fragrant Flowers Ltd. currently pays a dividend of Rs. 2·00 per share and this dividend is expected to grow at a 15% annual rate for 3 years, then at a 12% rate for the next three years, and thereafter it is expected to grow at a 5 % rate forever.

(*i*) What value would you place on the equity if 9 % rate of return were required ?

(*ii*) Would your calculation change if you expect to hold the equity for only 3 years ? 6 + 4

(*b*) (*i*) Discuss in brief the process of optimal portfolio determination.

(*ii*) Suppose there are two investors- Lucky and Guddy. Lucky loves to take risk whereas Guddy avoids risk. Explain with the help of a diagram whether they will have the same optimal portfolio.

(*iii*) Write a short note on zero coupon bond.

4 + 3 + 3

[*Internal Assessment* – 10 Marks]