2016

M. Com.

4th Semester Examination

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

PAPER — COM-403

Full Marks : 50

Time : 2 Hours

The figures in the right-hand margin indicate full marks.

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

Illustrate the answers wherever necessary.

Unit—I

[Marks : 20]

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

(a) Distinguish between investment and speculation.

(b) Give a conceptual explanation to what is known as semi-strong security market.

(c) The following closing share prices have been noted for a particular company, X for the following days :

Day	*Closing Price (in Rs.)*	*Day*	*Closing Price (in Rs.)*
1	25	6	27
2	27	7	24
3	29	8	30
4	28	9	29
5	26	10	32

Taking reversal criterian as Rs.2 and box size as Re.1, draw a point and figure chart.

(d) With the help of a line chart, show and explain primary trend, secondary reaction and minor movement (if any).

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

(a) Discuss how company level analysis is undertaken as a part of fundamental security analysis. 10

(b) Describe the various components of systematic risk. 10

Unit—II

[Marks : 20]

3. Answer any *two* questions : 2×5

(a) Explain the term 'Security market line' and highlight its importance. 3+2

(b) Write down the assumptions of CAPM.

(c) The equity share of Uphill Ltd. has its market value on 31st March of different years as follows :

Year	*Rs.*
2012	Rs. 550
2013	Rs. 625
2014	Rs. 595
2015	Rs. 655

You are required to determine and return from the holding of the share during the period using.

(i) Arithmetic mean method, *and*

(ii) Geometric mean method.

Which one do you think is a better one for computing the return ? Give reasons. Assume that no dividends were declared during the mentioned period.

2+2+1

(d) What are the different types of mutual funds on the basis of the objective criterion ? Discuss.

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

(a) (i) Mrs. Sangita has approached you to guide her relating to her investment decision. She gives you following information relating to three mutual funds that she is considering for her investment :

Mutual Fund	*Average return*	*Beta*	*Standard deviation*
Uproar	15%	1·25	17%
Jovial	16·5%	1·10	14·8%
Happy	18·5%	1·50	15·6%
Nifty	13·8%	1·00	11·8%

Assuming the risk-free of return to be 6·2% you are required to suggest the best investment for her based on Jensen's measure. Show detailed calculations.

(ii) The following data relating to a portfolio having two securities M and N is given to you.

Particulars	*Security M*	*Security N*
Return (%)	14·2	15·3
Standard deviation (%)	11·5	12·8
Covariance mn	(147·20)	
Investment ratio	2 : 3	

You are required to determine :

- The portfolio risk
- The investment ratio required to reduce the portfolio risk to zero.

(iii) Write down the formulae for computing portfolio risk for a three security portfolio. 4+4+2

(d) Z Co. Ltd. issues 14% debentures at a discount. The face value of the debentures is Rs. 100. Interests are paid on debentures annually at the end of each year. Redemption of the debentures is declared to take place phase-wise as follows :

— 10% of the debentures at a discount of 10% at the end of 3rd year from the time of issue,

— 20% of the debentures at a discount of 5% at the end of 4th year from the time of issue,

— 20% of the debentures at par at the end of 5th year from the time of issue, and the remaining 50% of the debentures at a premium of 10% at the end of 6th year from the time of issue.

If the cost of capital is 12% and the marginal corporate tax rate is 40%, you are required to estimate the rate of discount, if any, at the time of issue. You may ignore the tax implications of the loss on issue of debentures, if any.

[Internal Assessment : 10 Marks]
