

M.Com. 4th Semester Examination, 2013

**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) Following prices were noted for a share,

(Turn Over)

X for the given period :

<u>Day</u>	<u>Opening</u> <u>(in Rs.)</u>	<u>Closing</u> <u>(in Rs.)</u>	<u>High</u> <u>(in Rs.)</u>	<u>Low</u> <u>(in Rs.)</u>
1	32	34	36	31
2	35	37	38	32
3	35	36	39	35
4	36	34	36	32
5	35	33	38	32

Draw simple far chart and candlestick chart with the help of the above data. 5

(b) Explain Markowitz's mean-variance rule. 5

(c) Mr. I, an investor invested in the shares of P. Co. Ltd. by buying from open market @ Rs. 53 per share as on 15-04-11. The company declared a dividend on its equity shares @ 15 % for the financial year, 2010-11, which was ultimately paid after three months from the due date. The company went for a bonus issue for the next financial

year in the ratio of 1 : 1, which was given effect after two months' time from the year-end. The company paid an interim dividend of 9 % for the half-year ended on 30-09-12, but declared a final dividend of 12 % for the financial year, 2012-13. Both the dividends were paid after two months from the respective due dates. Mr. I sold all the shares, having a face value of Rs. 10 each, @ Rs. 75 as on 31-03-13. Calculate the holding period rate of return to Mr. I. 5

(d) Discuss various forms of market efficiency. 5

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

(a) (i) Distinguish between fundamental analysis and technical analysis. 4

(ii) Explain the following terms used by the technicians : 2 × 3

(I) Support level

(II) Resistance level

(III) Head and shoulders.

- (b) (i) Distinguish between 'coupon rate' and 'yield-to-maturity'.
- (ii) Distinguish between interest rate risk and purchasing power risk.
- (iii) Give one example each in the categories of leading and lagging economic indicators and elucidate why these indicators are so categorised. 4 + 3 + 3

UNIT – II

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

(a) Define efficient frontier. Distinguish between efficient portfolio and feasible portfolio. 5

(b) The equity share of Plus Ltd. (having a face value of Rs. 10) is trading at Rs. 165. The management of the company is expected to declare dividends every year which will grow at the rate of 15 %. Mr. Kamal wants to invest in the share and he feels that the value of the share will appreciate to Rs. 210 in five years. As a investment analyst, what

will your advice be to Mr. Kamal regarding his investment decision? Show necessary calculations. 5

(c) Two assets, *A* and *B*, have the following risk and return characteristics :

$$R_A = 22\%, R_B = 20\%, \sigma_A = 15, \sigma_B = 18, r_{AB} = -1$$

Compute portfolio return and risk if 40% is invested in asset *A* and the remaining in asset *B*. 5

(d) Explain the Jensen index of portfolio performance. 5

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

(a) (i) What are the assumptions of capital Asset Pricing Model ?

(ii) What do you understand by bond duration? Determine the bond duration in the case of a five year bond (face value of Rs. 100) which offers a coupon rate of 9% and which will be redeemed at 5% premium on maturity cost of capital is 10%. 4 + (3 + 3)

(6)

- (b) (i) The effect of diversification depends on the correlation between securities. Explain the statement in the case of a two-security portfolio.
- (ii) You are asked to evaluate five portfolios which aim at faster capital appreciation. The details regarding the return and the risk are given below :

Portfolio	A	B	C	D	E
Return(%)	17.5	19.0	15.0	18.5	20.0
Standard Deviation	15	16.8	16.5	18	17.5
Beta	1.8	2.1	1.6	1.85	1.95

Assuming the risk-free rate to be 5 % and the market return as 12.5%, you are required to rank the funds using Sharpe's and Treynor's ratio. 6 + 4

[Internal Assessment – 10 Marks]