2014

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 :   5×2

   (a) What is 'insider information' and how is it linked to market efficiency ?   5

   (b) (i) Distinguish between simple bar chart and candlestick bar chart.

   (ii) What are the limitations of the point and figure (P & F) chart ? Discuss.   3+2

(c) With the help of an illustration, show how right share issue to an existing shareholder may affect calculation of his return on investment. 5

(d) Discuss the various components of unsystematic risk in brief. 5

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

(a) (i) With the help of a hypothetical example, show different types of moving averages as per modern technical analysis.

(ii) Also show moving average convergence divergence (MACD) 6+4

(b) (i) Which are the non-financial measures of the fundamental analysis at the company level ? Discuss.

(ii) Giving the examples of a few leading economic indicators, explain how do they affect stock market. 6+4

Unit—II

[Marks : 20]

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

(a) Mr. Pyarelal wants to invest in the equity of MNP Ltd. The face value of the share is Rs. 10 and the company has declared a dividend of 50%. It is expected that

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the dividend will continue to grow at the rate of 15% for the next four years after which it stabilizes at 12% growth rate. Assuming that the equity investors want a return of 25%, you are required to determine the intrinsic value of the equity share.

(b) The security market line helps investors to identify whether securities are currently priced. Explain.

(c) Two investors having different preference towards risk will have a different optimal portfolio for a given efficient frontier. Elaborate the statement.

(d) An investor has obtained the following information about three mutual funds :

Mutual fund	Return (%)	Standard deviation (%)	Beta value
A	19	6	0.75
B	21	5,25	1.20
C	13	3,25	1,40

The risk-free rate of return is 7% and the market return is 16%.

Evaluate the funds using (i) Treynor's ratio and (ii) Share ratio.

4. Answer any *one* question :   10×1

   (a) (i) The possible returns and associated probabilities of Security A are given below :

Probability	Return
25%	6%
15%	10%
40%	15%
20%	18%

Calculate the expected return and the standard deviation of security A.

      (ii) The following information is given relating to the returns of Security P and BSE Sensex during the last five years.

Year	Return (%)	
	Security P	BSE Sensex
2009	50	70
2010	15	20
2011	(10)	(30)
2012	30	25
2013	10	12

Calculate the value of beta of the above security. What does it signify ?

(2+3)+(4+1)

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(b) (i) Discuss in brief the relationship between total portfolio risk and the number of securities in a portfolio.

(ii) The following information is given to you regarding portfolio premium and systematic risk of four mutual funds namely Q, R, S and T.

Fund	Excess Portfolio Return (%)	Beta
Q	5.50	0.90
R	7.00	1.10
S	6.80	1.40
T	10.50	1.60

The market risk-premium is 5%.

You are required to rank the funds on the basis of the predictive ability of managers.

5+5

[Internal Assessment : 10 Marks]

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