K24P 0341

Reg. No. : ....

Name : ....

IV Semester M.Com. Degree (C.B.S.S. – Reg./Supple.-(One Time Mercy Chance)/Imp.) Examination, April 2024
(2014 Admission Onwards)
Elective – A : FINANCE
COM 4E01 : Security Analysis and Portfolio Management

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part **(a)**, **3** marks for Part **(b)** and **5** marks for Part **(c)**.

1. a) Define the term, 'Hedging' in the Investment context.
   b) Highlight the important assumptions of the Dow Theory.
   c) Distinguish between Systematic Risk and Unsystematic Risk.

2. a) What is an 'Efficient Frontier' ?
   b) A 2-year bond of the Face value of ₹ 1,000 issued at a discount of ₹ 797.19. Determine the spot interest rate of the bond.
   c) Compare and contrast Capital Market and Money Market.

3. a) Explain briefly the concept of MACD.
   b) Bosco Ltd. pays a dividend of ₹ 4 per share. If the company's dividend per share is expected to be ₹ 7.05 per share at the end of 5 years; then at what annual rate is the dividend expected to grow ?
   c) Examine various factors that will be considered for company analysis.

4. a) What are 'Formula Plans' ?
   b) An investor expects to get a dividend of ₹ 3, ₹ 4 and ₹ 5 from a share during the next 3 years and hopes to sell at ₹ 80 at the end of the third year. The required rate of return is 20%. Determine the present value of the share to the investor.
   c) Distinguish between Options and Forwards.

P.T.O.

5. a) What does the 'Prospect Theory' state ?

   b) Illustrate the different factors influencing the investor's choice for equity investments.

   c) Evaluate which of the funds performs better using Jensen's measure based on the following details :

Funds	Returns (%)	β
A	18	1.2
B	15	0.8
C	21	1.5
Market Index	16	1.0

Market Beta – 1.0

Rf = 10%.

6. a) An investment provides a return of 10%, 20%, 30%, and 40% with probabilities of 25%, 30%, 15%, and 30% respectively. Compute the expected return.

   b) What is the rationale behind Technical Analysis ? Outline its criticisms.

   c) Given below are the likely returns of ABC Ltd. and XYZ Ltd. in various economic conditions. Both shares are presently quoted at ₹ 100 per share. Which of the two companies are risky investments ?

Economic Conditions	Probability	Returns of ABC Ltd.	Returns of XYZ Ltd.
Boom	0.40	100	150
Recovery	0.35	110	130
Depression	0.25	120	90

(4×9=36)

SECTION – B

Answer the **two** questions in this Section. **Each** question carries **12** Marks.

7. a) Who are the participants in the Indian Securities Market ? Describe their functions in detail.

OR

b) Jaya Ltd. has a 14% debenture with a face value of ₹ 100 that matures at par in 15 years. The debenture is callable in 5 years at ₹ 114. It is currently being sold at ₹ 105. Calculate each of the following :
(i) Current Yield (ii) Yield to Maturity (iii) Yield to Call.

8. a) The following data are available to you as a portfolio manager :

Security	Estimated Return	Beta	Standard Deviation (%)
A	30	2.0	50
B	25	1.5	40
C	20	1.0	30
D	11.5	0.8	25
E	10	0.5	20
Market Index	15	1.0	18
Govt. Security	7	0	0

i) In terms of SML, which of the securities listed above are underpriced ?

ii) Assuming that the portfolio is constructed with equal proportions of the 5 securities listed above; calculate the expected return and risk of such a portfolio.

OR

b) The historical rates of returns of two securities over the past 10 years are given below :

Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Security P Return (in %)	12	8	7	14	16	15	18	20	16	22
Security Q Return (in %)	20	22	24	18	15	20	24	25	22	20

Calculate the following :

i) Covariance.

ii) Correlation coefficient of the two returns.

iii) If the portfolio is constructed with 50% of security P and the remaining with security Q; then what will be the portfolio SD ? **(2×12=24)**