M.B.A. DEGREE EXAMINATIONS: NOVEMBER 2009

Fourth Trimester

P07BA411: PORTFOLIO MANAGEMENT

Time: Three Hours   **Maximum Marks: 100**

Answer ALL Questions:-

PART A (1 x 20 = 20 Marks)

1. The following table given data on four stocks.

Stock	Alpha	Variance Systematic	Unsystematic
A	-0.06	5	4
B	.1	2	6
C	0.00	3	1
D	-.14	3	2

The market is expected to have a 12 % return over a forward period with a return variance of 6%. Calculate the expected return for a portfolio consisting of equal portion of stocks A, B, C and D.

PART B (10 x 2 = 20 Marks)
2. Define : CAPM
3. Define : APT
4. Define liquidity
5. What is meant by efficient frontier?
6. What is meant by corner portfolio
7. How can we arrive at the optimum portfolio
8. Differentiate Sharpe's performance with Treynors performance index
9. What is the main contribution of formula plan?
10. Differentiate open fund and close fund mutual fund
11. Define swaps.
PART C (4 x 15 = 60 Marks)

12. (a) Explain in detail meaning assumptions and application of CAPM model in portfolio management

(OR)

(b). Mr. Vijay did an investment analysis for stock X. The results of the analysis are as follow. The market price of risks or bi and sensitivities for the particular stock and given below R F = 5%.

Factor	λ	b_i
Interest rate risk	.9	.9
Purchase power risk	.9	1.8
Management risk	1.3	1.6
Market risk	.8	-1.75

The probability of getting return on X stock is given below.

Return	Probability
15%	40%
20%	30%
10%	20%
8%	10%

Can an investor purchase stock X?

13. (a). Define : Markowitz diversification . Explain the statistical method used by Markowitz to obtain the risk reducing benefits?

(OR)

(b). An investor wants to build a portfolio with the following four stocks. With the given details, find out his portfolio return and portfolio variance. The investment is spread equally over the stock.

Company	α	β	Residual variance
Sneha	0.17	.93	45.15
Neha	2.48	1.37	132.25
Asha	1.47	1.73	196.28
Priya	2.52	1.1	51.98

Market Return (Rm) = 11
Market return variance = 26.

14. (a). Explain the different methods of evaluating portfolio performance?

(OR)

(b). Mr. Jay has been owning units from three different mutual funds namely R,S and T. The following particulars are available to him. He wants to dispose any one of the mutual fund for his personal expenditure. Which fund should he dispose?

Funds	Excess Average Return	Beta
R	7.7	1.02
S	11.3	.99
T	11.6	1.07
Market	7.8	1.00

15 (a). "Formula plans help the investor to overcome being emotionally attached to the stock" – Explain.

(OR)

(b). "The average cost per share of stocks purchased under rupee cost averaging is lower". Does this hold good all the time? Explain.

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