

67

--	--	--	--	--	--	--	--	--	--

NEW SCHEME

Third Semester B.E. Degree Examination, Dec. 06 / Jan. 07
Business Administration

Security Analysis and Portfolio Management

Time: 3 hrs.]

[Max. Marks:100

Note: 1. Answer any FOUR full questions out of Q.No.1 to 7 and Q.No.8 (case study) which is compulsory.

2. Use of present value tables is permitted.

- 1 a. Distinguish between investor and speculator. (03 Marks)
 b. What are margins? Briefly explain various types of margins. (07 Marks)
 c. Mention the defects in the Indian stock market at the time of establishing the NSE and the objectives of NSE. (10 Marks)
- 2 a. What is PIE ratio? (03 Marks)
 b. Explain briefly the Dow Theory. (07 Marks)
 c. Explain the Bond Value Theorem. (10 Marks)
- 3 a. What are Japanese Candle Sticks? How are they used to analyze the stocks? (03 Marks)
 b. Arun considers Rs.1000 par value bond bearing a coupon rate of 11% that matures after 5 years. He wants to earn a minimum yield of 15%. The bond is sold currently at Rs.870. Should he buy the bond? (07 Marks)
 c. Following data give the market returns and the Saturn company's scrip return for a particular period:

Index return (R_m) Return (R_i)	Scrip
0.50	0.30
0.60	0.60
0.50	0.40
0.60	0.50
0.80	0.60
0.50	0.30
0.80	0.70
0.40	0.50
0.70	0.60

- i) What is the Beta value of Saturn's company's scrip?
 ii) If the market returns is 2, what would be the scrip's return? (10 Marks)
- 4 a. Differentiate between support and resistance level. (03 Marks)
 b. Briefly explain Random Walk Theory. (07 Marks)
 c. The following table provides information regarding the portfolio return and risk:

Portfolio	Expected return $\Sigma(R)$	SD σ
1	10	4
2	12	7
3	13	5
4	16	12
5	20	14

- i) The Treasury bill rate is 5%. Which portfolio is the best?
 ii) Would it be possible to earn 12% return with σ of 4%?
 iii) If σ is 12%, what would be the expected return?

(10 Marks)

Contd.... 2

- 5 a. What is private placement? (03 Marks)
 b. Discuss some of the chart patterns in technical analysis. (07 Marks)
 c. For the following data calculate price weighted, equally weighted and value weighted indices:

	Share price on 30.6.01	Share price on 30.6.02	No. of shares out standing Mon. 2002
Stock A	54	60	100,000
Stock B	60	64	150,000
Stock C	65	72	200,000

Consider 30.6.01 as base year.

(10 Marks)

- 6 a. Name the ratio's used in company analysis. (03 Marks)
 b. The current dividend on an equity share of V ltd is Rs.2.00. V ltd. is expected to enjoy an above normal growth rate of 20% for 6 years. Thereafter the growth rate will stabilize at 10%. Equity investors require a return of 15%. What is the intrinsic value of equity shares? (07 Marks)
 c. The expected rate of return and the possibilities of their occurrence for A y₂ and B y₂ are as follows:

Probability	Returns on 'A' scrip	Returns on 'B' scrip
0.05	-2.0	-3.0
0.20	9.0	6.0
0.50	12.0	11.0
0.20	15.0	14.0
0.05	26.0	19.0

- i) Find out the expected rates of return for Ay₂ and By₂ scrips.
 ii) If an investor invests equal proportion on both scrips what would be the return?
 iii) If the proportion is changed to 75% & 25% to A & B and 25% & 75% to A & B what would be the expected rate of return? (10 Marks)

- 7 a. What is Arbitrage Portfolio? Mention the assumptions of Arbitrage Pricing Theory. (05 Marks)
 b. The following results were obtained from a study for a period of 6 months in 2000.

Fund	R _P	σ _P	β
Birla advantage	25.38	4.0	0.23
Pun. ICICI	36.28	6.86	0.52
Alliance equity	45.56	4.31	0.63
Sap 500 CNX	36.74	3.69	1.00
R _f	9.00	-	-

Using the input rank the funds according to the predictive ability of the fund management. (15 Marks)

8 CASE STUDY:

Smart tyres and Brisk tyres companies shares are presently sold at Rs.60 and Rs.100 respectively. Annual dividends over the next year are expected to be Rs.1.5 and Rs.2.5 respectively. Smart's projected earnings per share is Rs.2.5 and Brisks Rs.4. Smarts dividends are expected to grow at 10% p.a. in the future and Brisk's by 9%. Financial analysts have estimated the likely prices for the year ahead on two stocks to be Rs.66, Rs.72, Rs.75 for smart and Rs.114, Rs.126 and Rs.132 for Brisk.

- a. You are asked to examine the return of each company's stock. Choose one stock to be purchased for a holding period of one year. Support your choice.
 b. If the investor's required rate of return is 12% and he wants to hold the stock for a longer period which stock would you suggest and why? (20 Marks)
