SDV – 9

M.Com. (Semester – II) Examination, November 2015
COC 204 : SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT
(OA – 18)

Duration : 3 Hours Max. Marks : 60

Instructions : *1) This paper consists of **nine** questions carrying **equal** marks.*
*2) Question No. **1** consists of **5 compulsory** questions of **2** marks **each**.*
*3) Answer **any 5** questions from question **2, 3, 4, 5, 6, 7, 8** and **9**.*
*4) **Each** question carries **10** marks. Figures to the **right** indicate marks.*
*5) Present value tables will be **provided** on request.*

1. Answer the following questions **in brief**. **(5×2=10)**

a) Explain interest rate risk in the context of investments.

b) Explain Income Bonds and Deep Discount Bonds.

c) What is Relative Strength Index ?

d) PQR Ltd. would pay Rs. 2 as dividend per share for the next year and is expected to grow indefinitely at 12%. What would be the equity value if the investor requires 20% return ?

e) Calculate holding period returns for the two stocks given below assuming face value to be Rs. 10 for both the stocks.

Stock	Price on 1.1.2013	Price on 2.1.2014	Dividend
A	100	125	10%
B	50	40	15%

P.T.O.

2. What is EIC approach ? Explain the procedure of security analysis through this technique ? 10

3. What is Portfolio Revision ? Explain various strategies for portfolio revision. 10

4. Explain Arbitrage Pricing Theory. 10

5. A bond of face value of Rs. 100 is available at a price of Rs. 102. The bond has coupon of 15% and matures in 20 years. The bond is callable in 5 years at Rs. 111. Interest rates are expected to trend downward over foreseeable future.

   a) What is the yield-to-maturity on this bond ?

   b) What is the yield-to-call on the bond ?

   c) Which yield calculation should an investor regard under given circumstances as the most important for decision making purposes ? Why ? 10

6. The return of AB Corp at present is 20%. This is assumed to continue for the next 5 years and after that it is assumed to have a growth rate of 10% indefinitely. The dividend paid for the current year is 30%. The required rate of return is 15% and the present price of stock is Rs. 80. Determine the estimated price of stock according to two-stage model of equity valuation and comment. 10

7. A financial analyst is considering two investment alternatives, stock A and stock B. The estimated rates of returns and their probability of occurrence for the next year are given below.

Probability of Occurrence	Rates of Return (%)	
	Stock A	Stock B
0.3	–9	8
0.4	10	–2
0.2	12	9
0.1	–5	10

   a) What are the expected rates of returns, variance and standard deviation of each stock ?

   b) Which of the above stock is relatively less risky ?

   c) If the financial analyst wishes to invest 60% in stock A and 40% in stock B, would it reduce risk ? Explain. 10

8. Ajit, Amit and Ankit are three regular investors in capital market instruments. Recently they collected the following information about three funds.

Fund	Average Annual Return	Std. Deviation	Correlation Coefficient with market
X	20	25	0.8
Y	16	15	0.5
Z	17	10	0.7

Ajit has further calculated the average market return to be 13% for the same period with standard deviation of 12%. The risk free rate of interest is 8%.
