4147   *Your Roll No.* ....

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M.COM. : SEMESTER – IV (OC)   **G**

Paper No. – 7102

Security Analysis & Portfolio Management

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Time : 3 Hours   *Maximum Marks : 100*

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*(Write your Roll No. on the top immediately
on receipt of this question paper.)*

Attempt **all** *questions.*
All *questions carry equal marks.*

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1. (a) "The Investment process involves a series of activities starting from policy formulation". In the light of this statement, explain investment decision-making process. Explain relevance of this process in making sound investment decisions.   (10)

    (b) Give an account of the reforms introduced by SEBI in primary and secondary market in India ?   (10)

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OR

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    (c) Following information is available in respect of the rate of return on two securities – A and B :

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Condition	Probability	Rate of return on A(%)	Rate of return on B (%)
Recession	40%	16	20
Normal	40%	12	13
Boom	20%	3	−5

Which of the following two securities is good for investment ?

(i) In terms of return

(ii) In terms of risk   (10)

(d) Distinguish between systematic and unsystematic Risk. Cite some recent examples of systematic and unsystematic risk and how they have affected the Indian stock market and stocks in specific industry ?   (10)

2.   (a) Mr. X is considering purchase of a bond currently selling at Rs. 878.50. The bond has four years to maturity, face value of Rs. 1,000 and coupon rate of 8 percent. The next annual interest payment is due after one year. The required rate of return is 10 percent.

    (i) Calculate the intrinsic value of the bond. Should Mr. X buy the bond ?

    (ii) Calculate the Yield to Maturity of the bond.

                                                    (12)

(b) Explain (i) Bond Indenture and (ii) Junk Bonds   (8)

OR

(c) A Rs. 1000 par value 9% coupon bond is currently selling at yield to maturity of 16%. The bond has 4 years to maturity and interest is payable annually. Calculate current price of the bond and duration of the bond.

(10)

(d) Distinguish between current yield, yield to maturity and coupon rate. Discuss the concept involved.   (10)

3. (a) X Ltd. has common shares outstanding, which paid a dividend of Rs. 1.50 last year. Investors have traditionally required a rate of return of 20 percent on these shares. Forecasts suggest that earnings and dividends on the stock will grow at a rate of 15% over the next five years and at a rate of 10% thereafter. What is the intrinsic value of the stock ?   (12)

(b) "Fundamental Analysis is useful for investors whereas Technical Analysis is useful for traders". Critically comment.   (8)

OR

(c) The shares of ABC Ltd. are currently trading at Rs. 150. It declared dividend per share of Rs. 8 last year. The dividend is expected to grow at the rate of 9% p.a.

forever. Investor A, B and C have expected rate of return of 15%, 18% and 12% respectively. Find whether the current price offers them proper opportunity for investment in the shares of the company.   (12)

(d) What is "Economic-Industry-Company" Framework ? Explain its significance for an investor.   (8)

4. (a) What is the essential difference between the Sharpe and Treynor Indexes of portfolio performance ? Which do you think is preferable ? Why ?   (10)

(b) An investor is considering investment in securities P and Q whose details are given below

Particulars	Security P	Security Q
Expected Return	13%	16%
Std. Dev. of return	4%	7%

If a portfolio with 30% of P and 70% of Q is formed, find the

(i) Expected return of the portfolio

(ii) Minimum risk of the portfolio

(iii) Maximum Risk of the portfolio   (10)

OR

(c) Consider the following information for three mutual funds, A, B, C and the market :

	Mean return %	Standard deviation %	Beta
A	12	18	1.1
B	10	15	0.9
C	13	20	1.2
Market index	11	17	1.00

The mean risk free rate was 6 percent. Calculate Sharpe measure, Treynor measure and Jensen measure of performance evaluation for the three mutual funds and the area market index.   (10)

(d) What is efficient frontier in the Markowitz Formulation ? How does the investor select the optimal portfolio from the efficient sets ?   (10)

5.   (a) An Investor has obtained the following details regarding XYZ corporation call option :

Current Price of the stock   = Rs. 140

Exercise Price   = Rs. 130

Time of expiration	= 1 Year
Standard Deviation	= 0.50
Risk-free rate of Interest	= 6% p.a.

Using the Black-Scholes model, determine the value of call option.   (12)

(b) What are future Contracts ? What are their features ? What are the factors determining the price of futures contract ?   (8)

OR

(c) Write notes on any **two** of the following :

    (i) Efficient Market Hypothesis.

    (ii) Capital Asset Pricing Model (CAPM)

    (iii) Option Strategies   (10×2=20)