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| **SESSION**  | **JUL - AUG 2024** |
| **PROGRAM**  | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **III** |
| **COURSE CODE & NAME**  | **DFIN301 SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT** |
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**Assignment Set – 1**

**1. Global Energy Corp. provides the following expected returns and probabilities for five states of the economy:**

**• State P: Probability = 0.15, Return = 5%**

**• State Q: Probability = 0.25, Return = 15%**

**• State R: Probability = 0.3, Return = 10%**

**• State S: Probability = 0.2, Return = 8%**

**• State T: Probability = 0.1, Return = 20%**

**Calculate the average expected return and risk.**

### **Ans1.**

### **Calculating Average Expected Return and Risk**

#### Understanding Average Expected Return and Risk

The average expected return and risk are fundamental metrics in portfolio management, aiding in assessing the potential performance and volatility of investments. The expected return represents the weighted average of possible returns based on their probabilities, while risk (standard deviation) quantifies the dispersion of returns around the average.

#### Expected Return Calculation

To calculate the expected return for Global Energy Corp., we use the formula:

$$E\left(R\right)=∑\left(P\_{i}×R\_{i}\right)$$

Where:

* $P\_{i}$ is the probability of each state.

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**2a. Consider a bond with a face value of €500, a 9% annual coupon rate, and 8 years to maturity. If the annual interest rate is 8%, calculate the bond's current value.**

**b) Discuss the concept of Moving Average Convergence Divergence (MACD)**

**Ans2:**

**Calculating Bond Value and Discussing MACD**

 **(a) Bond Valuation**

Bond valuation is essential for determining the fair price of a bond based on its future cash flows, which consist of periodic coupon payments and the face value at maturity. The present value (PV) of these cash flows is calculated using the formula:

$$P=\sum\_{t=1}^{n}\frac{C}{\left(1+r\right)^{t}}+\frac{F}{\left(1+r\right)^{n}}$$

Where:

* $P$ is the bond price.
* $C$ is the annual coupon payment ($F×Coupon Rate$).
* $F$ is the face value of the bond.

**3a. Assuming a risk-free rate of 6% and an expected market risk premium of 9%, what is the expected return on a stock with a beta of 1.0?**

**b. Discuss the principles and implications of the Efficient Market Hypothesis.**

**Ans 3:**

Expected Return and Efficient Market Hypothesis

 **(a) Expected Return Using CAPM**

The Capital Asset Pricing Model (CAPM) calculates the expected return of an asset based on its systematic risk ($β$), the risk-free rate, and the market risk premium. The formula is:

$$E\left(R\right)=R\_{f}+β×\left(R\_{m}-R\_{f}\right)$$

Where:

* $E\left(R\right)$ is the expected return.
* $R\_{f}$ is the risk-free rate (6%).
* $β$ is the stock's beta (1.0).

**Assignment Set – 2**

**4a. Analyze the role of Global Depository Receipts (GDRs) as a global investment avenue.**

**b) Nancy invested 60% of her portfolio in Stock X, which has a return of 15%, and the remaining 40% in Stock Y, which has a return of 10%. Calculate the expected return of Nancy’s portfolio.**

### **Ans 4:**

####  **(a) Role of Global Depository Receipts (GDRs) as a Global Investment Avenue**

Global Depository Receipts (GDRs) are financial instruments that allow companies to raise capital internationally by issuing shares in foreign markets. These receipts are issued by international banks and represent ownership of a company’s shares, which are traded on stock exchanges outside the issuer's home country. GDRs bridge the gap between global investors and domestic companies, fostering cross-border investments.

**Key Features of GDRs:**

**Cross-Border Accessibility:** GDRs enable investors to invest in foreign companies without the

#### **(b) Calculating Portfolio Return**

Portfolio return is the weighted average return of the assets in a portfolio, determined by the proportion of investment in each asset and its respective return. Nancy’s portfolio consists of Stock X (60% weight, 15% return) and Stock Y (40% weight, 10% return).

**Formula for Portfolio Return:**

$$R\_{p}=\left(w\_{X}×R\_{X}\right)+\left(w\_{Y}×R\_{Y}\right)$$

**5a. Describe the meaning and benefits of mutual funds.**

**b. Discuss the role of arbitrage in the Arbitrage Pricing Theory (APT).**

**Ans 5:**

**a. Mutual Funds: Meaning and Benefits**

Mutual funds are professionally managed investment vehicles that pool money from multiple investors to purchase a diversified portfolio of securities, such as stocks, bonds, or other assets. Managed by fund managers, mutual funds aim to achieve specific financial objectives, such as growth, income, or capital preservation, based on the fund's investment strategy. They are an attractive option for individual investors seeking exposure to a broad range of investments without requiring in-depth knowledge of the financial markets.

**b. Arbitrage in Arbitrage Pricing Theory (APT)**

Arbitrage Pricing Theory (APT) is an alternative to the Capital Asset Pricing Model (CAPM) that explains the relationship between the expected return of an asset and its risk factors. APT is based on the principle of arbitrage, where investors exploit price discrepancies in the market to earn risk-free profits. The theory assumes that an asset’s return is influenced by multiple

**6a) Distinguish between fundamental analysis and technical analysis.**

**b) What are the common mistakes made in investment management?**

**Ans 6:**

**Fundamental vs. Technical Analysis and Common Investment Mistakes**

**(a) Fundamental Analysis vs. Technical Analysis**

Fundamental and technical analysis are two primary approaches to evaluating securities and making investment decisions. While both methods aim to guide investors in maximizing returns and minimizing risks, they differ significantly in their focus, methodology, and application.

**Fundamental Analysis:** Fundamental analysis involves assessing a company's intrinsic value by

**(b) Common Mistakes in Investment Management**

Investment management involves making decisions about asset allocation, security selection, and portfolio monitoring. However, investors often make mistakes that undermine their financial goals.

**1. Lack of Diversification:** Failing to diversify investments across asset classes, industries, or regions increases exposure to specific risks. Diversification spreads risk and minimizes the impact of poor performance in one area.

**2. Emotional Decision-Making:** Investors often let emotions like fear or greed drive decisions,