



Institute of Management
JK Lakshmipat University, Jaipur
END TERM EXAMINATION - 2019

B.Com H (V sem.) Fundamentals of Investment
Subject Code: FN 15
MM: 40Marks

Time: 2 Hours

Section – A

1. Mr. A, an investor is evaluating the prospects of investing in two companies S Ltd. and G Ltd. The projections of returns for the stocks of these companies with their probabilities are as follows:

Prob.	Returns associated with	
	S Ltd.	G Ltd.
0.2	15%	16%
.25	16%	10%
.30	-10%	28%
.25	28%	-2%

You are required to

- i. Calculate risk & return of investment in individual stocks **(3 Marks)**
 - ii. Calculate risk & return of the portfolio constituting these stocks in equal proportions. **(5 Marks)**
2. (a) Capital Asset Pricing Model is an improvement over Markowitz Portfolio theory. Are you satisfied with this comment? Support your answer with the strong evidence. **(2 Marks)**
- (b) Assume yourself as a wealth manager. In an investment avenue you find that beta (β) of that security is very higher than the risk premium offered by it. Would you like to invest in particular security on behalf of your customer? On what grounds you will accept or reject particular security, explain? **(2 Marks)**
- (c) The beta of a stock is 1.5 and the standard deviation of its return is 15%. The expected market return is 15%. Risk free rate is 6%. Calculate:
- i. Market risk premium
 - ii. Expected return of the stock
 - iii. Risk premium of the stock
 - iv. Is the stock a good buy, support your answer with logic. What strategy you will suggest for a prospective investor and already investor? **(4 Marks)**

3. Write Note On any 2:

(4*2 Marks)

- Capital Market line and Security Market Line
- Technical Analysis (draw a candle stick chart with random figures too)
- Trading procedure

Or

An investor is holding two stocks alpha and omega in his portfolio. The ex-ante probability distribution of two stocks and market index is given below:

Economic Condition	Probability	Conditional Return in %		
		Alpha	Omega	Market
Good	0.3	21	23	22
Normal	0.2	12	17	18
Worse	0.5	-8	-10	-9

The risk free rate is 3%. Assume that the CAPM conditions holds true, should an investor continue to hold the same stocks or not if beta of Alpha is 0.87 and Omega is 1.045. (8 Marks)

Section – B

Case Study

S. Sivan is the MD of Aalishan group; which is operating, in three diversified areas. It has three SBUs (Strategic Business Units) named Company A, B and C. Sivan wants to maximize shareholder's wealth in each company of his group. Due to peer-pressure, Alishan group is thinking to distribute dividends to shareholders of all three companies. Cost of capital, rate of return and other details are provided by the finance manager of Alishan group. Alishan group wants to declare dividend distribution for different companies. Three dividend payout ratios are suggested by managers i.e. (i) 40%, (ii) 60% and (iii) 90%. Other details are as follows:

A Ltd	B Ltd.	C Ltd.
Rate of Return= 15%	Rate of Return= 10%	Rate of Return= 8%
Cost of Capital= 10%	Cost of Capital= 10%	Cost of Capital= 10%
E = 20 Rs.	E = 20 Rs.	E = 20 Rs.

Questions:

- Under company analysis, dividend distribution is considered as main key to analyze companies. Using all three dividend payout ratio, advice which one is suitable for which company, keeping in mind Gordon's formula of Equity valuation and provide logical evidence for your choice. (2+2+2+2 Marks)
- What another remaining measures Sivan could use other than equity analysis (i.e. part of company analysis) to identify intrinsic value of Alishan group or respective SBUs? Explain each one in short. You can assume Alishan group is operating in any country/ industry of your interest. (4+4 Marks)