Chapter Tests of SFM of

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SFM Test of Portfolio Management – 1

Maximum Marks: 30 **Time Allowed: 1 hour**

All questions are compulsory

Q 1

(a) The aggregate average risk free rate of return and market return for a 3-year period are 10% and 18% respectively. The results for four portfolios during the same period are summarized as under:

Portfolio	Average Return (percentage)	Beta
P_1	18	0.90
P_2	18	1.12
P_3	24	1.50
P_4	16	0.95

Which portfolio has performed the best?

(4 Marks)

(b) Consider the following information of 3 stocks:

Year	Return on A	Return on B	Return on C
2021	10	12	16
2022	16	18	10

Determine:

i. Expected return on a portfolio containing A and B in 40% and 60% ratios
ii. Risk of the above portfolio
iii. Covariance of the returns from the two stocks A and B, B and C, and C and A
iv. Will security C provide any benefits of diversification if combined with stock A or Stock B?

(8 Marks)

Q 2

(a) Investor's Weekly, a news magazine on the happenings at Cloudy Street, publishes the following information in its July edition for Security D - Equilibrium Return = 20%, Market Portfolio Return = 20%, 6% Treasury Bills (Rs.100) at Rs.120. Covariance of the Security with the market portfolio is 225% and correlation is 0.85. Determine risk of Market Portfolio and security risk.

(5 Marks)

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(b) Subho has invested in four securities M, N, O and P, the particulars of which are as follows —

Security	**M**	**N**	**O**	**P**
Amount Invested (Rs.)	1,25,000	1,50,000	80,000	1,45,000
Beta (β)	0.60	1.50	0.90	1.30

If RBI Bonds carries an interest rate of 8% and NIFTY yields 14%, what is the expected return on portfolio? If investment in Security O is replaced by investment in RBI Bonds, what is the corresponding change in Portfolio Beta and expected return?

(5 Marks)

Q 3 Securities X and Y have standard deviations of 3% and 9%. Nitin is having a surplus of Rs.20 Lakhs for investment in these two securities. How much should he invest in each of these securities to minimize risk, if the correlation co-efficient for X and Y is —

(a) -1; (b) -0.30; (c) 0; (d) 0.60

(8 Marks)

Question Paper prepared by CA. Ashish Lalaji

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