**Capital Market and Portfolio Management**

**December 2021 Examination**

**1. From the following information, calculate the volatility of the portfolio and comment on the relationship among the stocks return. (10 Marks)**

**TABLE BELOW**

|  |  |  |  |
| --- | --- | --- | --- |
| **Day**  | **Stock A**  | **Stock B**  | **Stock C**  |
| **1**  | **0.4**  | **2.2**  | **0.6**  |
| **2**  | **1.1**  | **1.3**  | **0.5**  |
| **3**  | **0.9**  | **1.2**  | **1.4**  |
| **4**  | **1.7**  | **1.9**  | **1.6**  |

**SOLUTION:**

**Introduction:**

On the technical side of things, the volatility of a portfolio is also known as the standard deviation of the portfolio. An example of this is the use of the standard deviation to look at whether there is a danger associated with particular protection that bureaucracy has in its portfolio. Due to the correlation, it is possible to describe the relationship between different stock returns. The price of the correlation coefficient lies in a range between -1 and +1. If the correlation Its Half solved only

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**2. You are a financial advisor at XYZ Stock Broking firm. Calculate the return as per CAPM for following company’s stock, identify whether the stocks are undervalued, overvalued or correctly priced and advise accordingly. Returns of T- Bill is 7%. (10 Marks)**

|  |  |  |
| --- | --- | --- |
| **Stock**  | **Expected Return**  | **Beta**  |
| **Tata**  | **21%**  | **1.7**  |
| **Adani Power**  | **16%**  | **1.4**  |
| **Ranbaxy**  | **23%**  | **1.1**  |
| **PNB**  | **19%**  | **1.2**  |
| **Sensex**  | **18%** |

**Solution:**

**Introduction:**

CAPM, which stands for Capital Asset Pricing Model of Value Analysis, is a definition that describes the relationship between systematic chance and the expected return from an inventory, which is known best as the CAPM. In financial control, CAPM is primarily used to assess risks in shares and to create expected returns on assets, considering the risk associated with these stocks in addition to the cost of capital. The risk-free price of return within the CAPM recipe

**3. Sunaina has qualified her Investment Banking certification and has applied for a job with an Investment bank. As a part of preliminary round of interview, she is supposed to answer the following questions**

**a. Factors that impacts the investment decisions of a person. (5 Marks)**

**Solution:**

**Introduction:**

The term 'investment' refers to the interest or returns that one expects the investor to receive on an investment in the form of revenue through the asset in question. It is the ultimate objective of any kind of investment to minimize risk on an investment while maximizing the return at the same time. While threat-return analysis is of utmost importance in decision-making in any

**b. Difference between the two main classes of financial instruments that an investor uses in their portfolios. (5 Marks)**

**SOLUTION:**

**Introduction:**

Financial tools can be defined as a contract, statement or report that represents an asset of some sort for someone else during the course of having legal responsibility for someone else. You can, for instance, buy a bond, make a swap, buy a bond, buy a share, pay a trade bill, and so on.