**Capital Market and Portfolio Management**

**June 2022 Examination**

**Q1. Are investment and gambling the same? Justify your answer explaining the concept and characteristics of investment. (10 Marks)**

**Ans 1.**

**Introduction:**

The underlying essential precept in each activity is minimizing hazards with maximization of returns. Investing in the inventory market is regularly handled as gambling only. It may be authentic as both the sports contain chance and preference— precisely the threat associated with investing the capital in expectation of destiny profits. But, gambling is for a shorter length, even as the equity investment can last for a lifetime. Moreover, the longer-term return in playing is poor for gamblers on a median foundation. In comparison, the expected longer-term return for an

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**Q2. You are given the following data:**

|  |  |  |
| --- | --- | --- |
| **Name of the Company** | **Expected Beta** | **Expected return in percent** |
| **A** | **0.95** | **12** |
| **B** | **0.80** | **15** |
| **C** | **0.65** | **13.50** |
| **D** | **0.64** | **10** |
| **E** | **0.90** | **12.5** |
| **F** | **0.60** | **16.5** |
| **G** | **1.25** | **18** |

**Expected return of the market - 14%; Risk free rate of return - 5%**

**With the help of above given information find the stocks which you would recommend to buy or sell? Which technique would you employ to calculate the same? List down the other applications if any? (10 Marks**

**Ans 2.**

**Introduction:**

An investor invests finances within the marketplace to anticipate future rewards at the risk that he's taking. There are several techniques to assess the threat-return profile of an investment. One such approach is the identity capital asset pricing version. It's miles more commonly known as the CAPM approach. It allows figuring out the expected returns from a stock, maintaining the risk element or the beta of the stock, and return of threat-loose protection or the T

**Q3. According to Lord Keynes “Given market prices, investors driven by the speculative motive, would trade on forecasts of the future market price of stocks, rather than stocks’ intrinsic values.” As a security analyst:**

**a. Comment on the given statement (5 Marks)**

**Ans 3a.**

**Introduction:**

Lord Keynes argued that an investor's decision is not based totally on ideas. The message given via Lord Keynes is built around the four concepts of the stock market. Those concepts are psychology, optimism/pessimism, self-belief, and market sentiment.

**b. Given this statement, why do we need fundamental analysis? (5 Marks)**

**Ans 3b.**

**Introduction:**

Fundamental analysis is the study of the elements as a way to affect the inventory price in the future. The essential evaluation identifies whether a stock is overpriced or underneath-priced via determining its intrinsic cost. Both historic and gift