**Portfolio Management – 1**

**June 2023 Examination**

1. **Following is the information about the portfolio performance of three managers.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Manager** | **Actual**  **Return** | **Standard**  **Deviation** | **Beta** |
| **P** | **15%** | **25%** | **1.3** |
| **Q** | **12%** | **20%** | **1.2** |
| **R** | **10%** | **17%** | **0.95** |

**Assume risk-free rate is 5% and market return is 10% and market standard deviation is 18%. Find the following:**

**i. Expected Return**

**ii. Sharpe Ratio**

**iii. Treynor Ratio**

**iv. M2**

**v. Jensen’s Alpha**

**Also, comment which manager has performed better. (10 marks)**

**Ans :**

**Introduction:**

Portfolio management is selecting and managing a group of investments to gain a specific monetary aim. It includes analyzing individual assets' threat and go-back characteristics and mixing them into an assorted portfolio. One of the key metrics used in portfolio control is performance evaluation, which involves comparing a portfolio's actual return to its expected go-back and other benchmarks. In this state of affairs, we have been provided with the portfolio performance of 3 managers, and we need to assess their overall performance using different It is only half solved

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**2. Radha purchases a share for $100 today. At the end of the year, she purchases another share for $120. At the end of Year 2, she purchases another share for $135. At the end of year 3, she liquidates her shareholding for $140 each. At the end of each year during the holding period, she also received a dividend of $2, $3 and $5 per share, respectively.**

**Calculate her money-weighted and time-weighted rate of return on the investment. (10 marks)**

**Ans:**

**Introduction:**

Investing in shares is a popular way to earn money by individuals. It is a long-term investment that provides returns in the form of dividends, capital gains, or both. The rate of return on investment is a key performance indicator for investors, and it helps them evaluate their investment performance. In this scenario, we will calculate the money-weighted and time-weighted rate of return on

**3. According to a news article on Yahoo Finance, following are the statements made by Warren Buffett:**

**"Diversification is protection against ignorance. It makes little sense if you know what you are doing."**

**"A lot of great fortunes in the world have been made by owning a single wonderful business. If you understand the business, you don't need to own very many of them."**

**Source: Yahoo Finance**

**A) Contradict to the above statement by explaining how diversification is beneficial for the investors. Also, provide an example to demonstrate the benefits. (5 marks)**

**Ans:**

**Introduction:**

Warren Buffett is a renowned investor and businessman often quoted for his insights on investing. Within the informative article on Yahoo Finance, he is quoted as announcing that diversification is safe towards ignorance, and it makes little sense if you know what you are doing. At the same time as this declaration might also keep real in mild cases, it is not

**B) In the context of above statement, explain its impact on systematic and unsystematic risk for any individual investor. (5 marks)**

**Ans:**

**Introduction:**

Warren Buffett, one of the most hit traders, has made several high-quality statements about diversification and investing. In a current news article on Yahoo Finance, he emphasized that diversification may only sometimes be necessary for investors who recognize what they are