**Capital Market & Portfolio Management**

**April 2024 Examination**

**1. Only asset allocation strategy is not sufficient for healthy organization. For achieving financial objective management have to measure the performance of portfolio. Which different methods you can use measuring portfolio return of your company? (10 marks)**

**Ans 1.**

**Introduction**

In the rapidly evolving landscape of the capital market, organizations are continually seeking strategies to optimize their financial performance and enhance shareholder value. While asset allocation plays a pivotal role in shaping the investment strategy of a company, it is merely the starting point in the pursuit of achieving financial objectives. A comprehensive approach to portfolio management necessitates the measurement of portfolio returns, a critical aspect that provides insights into the effectiveness of investment decisions and the overall health of the organization. This evaluation not only highlights the success or failure of the chosen investment strategies but also informs future decisions, ensuring alignment with the company's financial

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**2. If you are going to ascertain whether specific investment strategy helps to earn more return. Which different test you can apply for judging market efficiency? (10 marks)**

**Ans 2.**

**Introduction**

The evaluation of an investment strategy's effectiveness in generating returns is a pivotal aspect of portfolio management and is inherently linked to the concept of market efficiency. Market efficiency, a cornerstone in the field of financial economics, posits that asset prices reflect all available information. Thus, the ability to earn above-average returns through specific investment strategies is contingent upon the degree of market efficiency. To scrutinize the efficacy of these strategies, various empirical tests are applied, each designed to assess different dimensions of market efficiency: weak, semi-strong, and strong forms. This analysis is crucial

**3a. A financial statement shows the financial status of an organization. If your customer is asking credit, so as a supplier you should check the financial status of that customer. How different financial statement can guide you in your decision? (5 marks)**

**Ans 3a.**

**Introduction**

When extending credit to a customer, assessing their financial health is paramount to mitigate risk and ensure the likelihood of repayment. Financial statements serve as a comprehensive reflection of an organization's financial status, offering crucial insights into its liquidity, profitability, and solvency. These documents—namely the balance sheet, income statement, and cash flow statement—provide a detailed overview of a company's financial operations and

**b. Expected return on a security is 19.5% & risk free rate of return is 9.5%. Mr. A is confused for calculating risk premium. Help him to calculate risk premium. (5 marks)**

**Ans 3b.**

**Introduction**

In the realm of investments, understanding the concept of risk premium is essential for any investor, including Mr. A, who seeks to navigate the complexities of financial markets. The risk premium of a security is a fundamental concept that reflects the additional return an investor expects to receive for taking on the higher risk associated with that security compared to a risk-free asset. The risk-free rate serves as a benchmark for assessing the attractiveness of investment