**Capital Market & Portfolio Management**

**December 2024 Examination**

**Q1. Suppose you are advising a friend who is unsure about investing. What key factors would you explain to them to help them make a more informed decision? (10 Marks)**

**Ans 1.**

**Introduction**

Investing in the capital market can be a powerful tool for wealth creation and financial growth, but it also comes with risks and complexities that can overwhelm beginners. For someone unsure about investing, it's essential to start by understanding the basic principles and factors that influence investment decisions. The capital market provides opportunities to invest in securities like stocks, bonds, and mutual funds, but each of these investment vehicles carries different levels of risk, potential return, and time horizons. A well-structured portfolio can help achieve both short- and long-term financial goals by balancing risk and return. However, to make informed decisions, one needs to consider key factors such as personal financial objectives, risk tolerance, market conditions, and investment

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**Q2. Suppose you had to create a visual representation of stock return distributions. What features would you include to effectively illustrate the characteristics of both types of stock return distribution and their impact on understanding stock performance? (10 Marks)**

**Ans 2.**

**Introduction**

Stock return distributions are a fundamental tool for understanding the behavior and performance of stocks in the capital market. These distributions reveal how returns on stocks are spread over time, helping investors assess the likelihood of gains or losses and make informed decisions about risk and reward. Visual representations of stock return distributions—such as histograms, bell curves, and probability density functions—are crucial for illustrating key characteristics like skewness, kurtosis, variance, and mean returns. Effective visualizations can reveal whether returns follow a normal distribution or are

**Q3a. ABC Ltd earned a net income= ₹4,00,000/- at the end of the year 31st March 2020. Shareholder’s equity on 31st March 2019 = ₹16,00,000/- & on 31st March 2020 = ₹15,00,000/- Calculate ROE for the year ended 31st March 2020. (5 Marks)**

**Ans 3a.**

**Introduction**

Return on Equity (ROE) is a key financial metric used to evaluate a company's profitability by measuring how effectively management is using the shareholders’ equity to generate profits. It provides insights into the company’s ability to generate income relative to the investment made by shareholders. A higher ROE indicates that the company is efficiently generating returns on investments, which is attractive to

**b. Imagine you are an investment adviser and your client decides to invest Rs.10,000/- in multiple investment avenues. He decides to invest 40% in mutual fund and rest in shares. Expected return from mutual fund is 8% & from shares is 12%. Calculate total expected return for your client. (5 Marks)**

**Ans 3b.**

**Introduction**

As an investment advisor, it is crucial to help clients understand the expected returns from their investments in different asset classes. In this case, your client is looking to invest ₹10,000 in two different avenues: mutual funds and shares. The investment is divided with 40% allocated to mutual funds, which offer an expected return of 8%, and the remaining 60% in shares, expected to return 12%. Calculating the total expected return helps the client understand the overall profitability of this diversified