



UNIVERSITY EXAMINATIONS
SPECIAL / SUPPLEMENATARY EXAMINATIONS
2019/2020 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER
FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BBF 422

COURSE TITLE: PORTFOLIO THEORY & ANALYSIS

DATE: 5TH FEBRUARY, 2021

TIME: 2.00PM – 4.00PM

INSTRUCTIONS TO CANDIDATES

Answer Question ONE (compulsory) and ANY OTHER TWO questions

Q1.

a)

Briefly outline the portfolio theory and its assumptions.

(10 marks)

b)

A portfolio consists of two assets, the expected returns and standard deviations of returns of which are listed in the table below:

| | Asset A (%) | Asset B (%) |
|--------------------|-------------|-------------|
| Expected return | 8 | 16 |
| Standard deviation | 10 | 20 |

Required

Calculate:

(i) The expected return for a portfolio which is equally weighted between the two assets. (5 marks)

(ii) The correlation coefficient for the two-asset portfolio, assuming that the covariance is 32. (5 marks)

c)

Discuss the benefits of using the Capital Asset Pricing Model to analyse investment portfolios compared to earlier formulations of portfolio theory such as the mean variance and capital market line methods.

(10 marks)

[TOTAL = 30 MARKS]

Q2.

(a) Discuss the key characteristics of 'passive' fund management and illustrate your points with reference to index tracking funds and exchange traded funds. (10 marks)

Required;

Identify this risks on the diagram and explain their measurement [10 marks]

b)

“Growing wealth through investing typically occurs over a long time horizon that includes many bullish and bearish market cycles. While making the most out of bull markets is important, it is equally important to avoid letting the inevitable bear markets reverse your progress”.

Discuss this strategy of portfolio management and investment (10 marks).

Q3.

a)

A portfolio consisting of two assets has a correlation coefficient of 0.8. Another two asset portfolio has a correlation coefficient of -0.8. In the absence of any other information, which portfolio should you invest in? Justify your reasoning. (10 marks)

b)

Distinguish between fundamental and technical analyses. [10 marks]

Q4

a)

Discuss the role of Covariance and Correlation in Portfolio. [10 marks]

b) Outline reasons for the volatility on stock market. [10 marks]

Q5.

a)

Consider the following statistics; **Corr Coefficient = 0.8**

| Stock | E(r) | Weight (w) | Variance. |
|-------|--------|--------------|-----------|
| A | 0.12 | 0.40 | 0.0064 |
| B | 0.18 | 0.60 | 0.0100 |

Required; Portfolio return and risk

(10 marks)

b) Explain the influence of Risk free asset on portfolio's expected return **(10marks)**