Som-Lalit Institute of Management Studies

Subject**:** Securities Analysis and Portfolio Management

Subject Code: 4539221

Author: Dr Riddhi Dave

Unraveling MrDawar's dilemma

Mr. Dawar, a businessman, has approached you for professional advice on investment. He has a surplus of Rs. 10 lacs which he wishes to invest in equities market as he feels the fundamentals of Indian Market are very strong. Through his research he has found two stocks of reputed companies Epsilon Ltd and Theta Ltd .However he wants to know the past performance of the stocks before investing. Based on the information given below help him by answering his questions.

The following is the information available about the return on the stock over last ten years.

Period(years preceding the current one)		1	2	3	4	5	6	7	8	9	10
Return(in %) on	Epsilon LTD	30	22	15	30	15	18	-10	-10	25	30
	Theta LTD	25	28	35	15	18	20	-15	-6	15	20

1. Calculatethe average return of the stocks.
2. Calculate the risk of the stocks.
3. Find how these two stock are correlated
4. Can he create zero variance portfolio using these two stocks?

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Ms. Rahi's search for Alpha

MsRahi has heard that with the profound research one can find the stocks which can outperform the overall market. She has come across two stocks which she finds catching her attention. Below is the return on these two stocks and the market over the period of last seven years

Year	XL Pharma Limited (%)	Ecotics green Limited%	Market (%)
2013	14	16	12
2014	4	3	2
2015	16	12	14
2016	32	27	26
2017	10	11	12
2018	27	28	24
2019	3	5	2

From the information above

1. Help her in finding whether there exists alpha for both the stocks.
2. Help her developing the characteristic line for both the stocks.
3. If the expected market return next year would be 15%, what return she can expect form both these stocks?

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Helping Mr Sharma with His Bond Investment

Mr Sharma is a professional working in reputed IT Company. He is expecting the interest rates in India will now be moving up and hence he is interested in making investment in bonds. He has found one bond suitable to his investment requirement:

Following is the information about the same:

	Bond
Face value	1000
Coupon Payable annually	8%
Years to Maturity	5
Redemption Value	1000
YTM	7%

He has consulted you and sought for your advice on the following. Please guide him on his following concerns.

1) What is YTM of a bond and how it is different from coupon rate?
2) Explain him the risks involved with bond investment.
3) Analyze importance of duration of a bond while taking the decision on bond investment
4) Calculate the duration of the above bond.