The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS
(BCOB YR 3 SEM 2/ BCOB YR 3 SEM 1/ BCOB YR 4 SEM 1/ BCOB YR 3 SEM 2)

UNIT CODE: HCOB 2407

UNIT TITLE: PORTFOLIO AND INVESTMENT ANALYSIS

DATE: 8TH DECEMBER, 2016 **TIME: 2:00 PM – 4:00 PM**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) Distinguish between technical analysis and fundamental analysis (4 marks)

(b) Define the following terms;-

i. Duration concept
ii. Systematic risk
iii. Treynor measure (6 marks)

(c) With reference to measurement of risk distinguish between CAPM and APM (5 marks)

(d) SMEP Ltd has been investing surplus funds in small portfolio of equity shares in the past few years. Details of the portfolio are as below (15 marks)

Company	No of share ‘000’	Beta	Share price	Dividend yield	Expected return %
A	170	1.27	37.5	5.6	12
B	150	1.53	43.5	3.5	16
C	100	1.01	25	4.2	14
D	80	0.95	45.0	6.2	9.3
E	130	0.82	35.0	4.8	15

The expected return on the market portfolio is 12% while the yield on the treasury bills is 6=5%

Required:

i. Using appropriate computations evaluate whether the above portfolio is more or less risky than that of the market portfolio
ii. Give recommendation on how the above portfolio should be charge giving the justifications for your proposal
iii. Discuss the problems that may be encountered in applying CAPM in investment appraisal

QUESTION TWO

(a) ‘A step by a drunkard is unrelated to the past or previous steps much as a flip of a coin is unrelated to the previous tosses’ **Anonymous**. Discuss the above statement with regard to efficient market Hypothesis (20 marks)

QUESTION THREE

(a) A Kenyan based multinational corporation is evaluating an overseas investment in America that involved an initial outlay shs 100 million. The expected cash flows from the investment are 150 M, 200M, 250 and 300M American dollars in years one, two, three and four respectively. The risk free rate in Kenya 13% whereas the risk free rate in America is 5%. Further assume that the spot rate exchange rate is shs 105 to the dollar and that the Kenyan company requires a 25% rate of return on foreign investments.

Required: Evaluate whether the proposed investment should be rejected (10 marks)

(b) You are an investment bank finance director and your have been tasked to take through a Chinese delegation from Guangzhu China Ltd an infamous bond investment group who are interested in investing Kenya and specifically through your company as their appointed agents. Giving relevant examples discuss the various bond management strategies that you would advise them to consider. (10 marks)

QUESTION FOUR

(a) Discuss the management of equity securities in both locally intentionally (4 marks)

(b) Discuss on the factors that determine bond prices in the Kenyan market that you would advise them to take note of (7 marks)

(c) Sasini Ltd has just paid dividends of shs 6.7 per share. Analyst expected that dividends to grow at a rate of 10%for the next 7 years thereafter at a constant rate of 4% indefinitely. The cost of equity is 16%

Required:

Calculate the theoretical price of the ordinary shares (9 marks)

QUESTION FIVE

(a) A portfolio manager is considering the benefits of increasing his diversification by investing overseas. He can purchases shares in individual county funds with the following characteristics:

	U.S (%)	U.K (%)	Esp (%)
Expected return	15	12	5
Standard deviation of returns	10	9	4
Correlation with the united states	1.0	0.33	0.06

i. What is the expected return and standard deviation of return of a portfolio with 25% invested in the US & 75% in the U.K (5 marks)

ii. What is the expected return and standard deviation of return of a portfolio with 25% invested in the Esp. & 75% in the U.S with 50% invested in the Esp & 50% in the US with 25% invested in the US & 75% in the Esp? (5 marks)

iii. Plot the above risk-return combinations, (i.e and b). Which leads to a better set of risk return choices, Esp, US and UK? (5 marks)

(b) Discuss arbitrage pricing theory (5 marks)