REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE

BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING & FINANCE

INVESTMENT ANALYSIS & PORTFLIO MANAGEMENT

HBAF 203

PART 2 SEMESTER 1

Total Marks [100]

DATE: OCTOBER 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has ***six (6)*** questions
2. Answer question ***one (1)*** and ***any*** other **three (3)**
3. Each question carries ***25 marks***
4. Start each question on a new page

Question 1

(a) You own 10000 shares whose current market price per share is $150, for a total current value $1 500 000. In order to protect yourself against a fall in the market, you but puts with a strike price of $150. If the total cost of the puts is $14 200, find you total value (net of premiums) if the market price of the share at expiration is $120. [8]

(b) Referring back to the above problem, suppose instead of a protective put, you decide to write a covered call against your position. The calls in total cost $32385. Find the net value of your position at the same closing prices as in the above problem. [7]

(c) Equity warrants are not as valuable as an otherwise identical call option on the share of the same firm. Explain why this must be the case. Also, what is the incentive for a firm to issue a warrant rather than to issue shares directly? [10]

Question 2

1. Equity warrants are not as valuable as an otherwise identical call option on the equity of the same company. Explain why this must be the case. What is the incentive for a firm to issue warrants rather than issuing equity shares directly? [13]
2. Bonds and preferred equity that are convertible into common equity are said to provide investors with both upside potential and downside protection. Explain how one security can possess both attributes. What implications do these features have on the way a convertible security is priced? [12]

Question 3

a) The need for portfolio revision may emanate from both financial market and investor related factors. Identify and explain any four factors in each category. [12]

b) Explain the following investment concepts:

i) Market timing, [3]

ii) Riding the yield curve, [3]

iii) Bond Ladder strategy [3]

iv) Characteristic line. [4]

Question 4

(a) Distinguish between investment, speculation and arbitrage [7]
(b) Explain the key difference which exists between closed-end and open-end investment companies. [6]
(c) Assess any 6 advantages of mutual funds. [12]

Question 5

(a) The following data relate to four [4] different portfolios of securities;

Portfolio	Expected rate of Return %	Standard Deviation on the Portfolio %
K	11	6.7
L	14	7.5
M	10	3.3

The expected rate of return on the market portfolio is 8.5% with a standard deviation of 3%. The risk-free rate is 5%

REQUIRED

Identify which of the portfolios could be regarded as "efficient"

(i) Using the Capital Market Line
(ii) Using the Capital Market Equation [15]

(b) Explain the assumptions of the Capital Market Theory? [10]

Question 6

Use the three-step, top-down valuation process to explain the significance of conducting a macro-micro analysis in security analysis. [25]

END OF PAPER