UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING

RESIT EXAMINATION PAPER JANUARY 2019

DEGREE/ DIPLOMA AND

YEAR OF STUDY   :   B. COM 111/ B.COM LEVEL 5

TITLE OF PAPER   :   INVESTMENT ANALYSIS AND PORTFOLIO
                                    MANAGEMENT

COURSE CODE   :   ACF317/ AC321 (RESIT) JANUARY 2019

TOTAL MARKS   :   100 MARKS

TIME ALLOWED   :   THREE (3) HOURS

INSTRUCTIONS   1   There are four (4) questions, answer all.

                           2   Begin the solution to each question on a new page.

                           3   The marks awarded for a question are indicated at
                                 the end of each question.

                           4   Show all the necessary workings.

                           5   Round off as you deem appropriate.

Note: You are reminded that in assessing your work, account will be taken of accuracy
        of the language and general quality of expression, together with layout and
        presentation of your answer.

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BY THE INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Sophie Mohale has an investment in two stocks of Brave Fortune LTD. Below are the rates of return for the past five years:

Year	Stock S	Stock U
1	0.19	0.08
2	0.08	0.03
3	(0.12)	(0.09)
4	(0.03)	0.02
5	0.15	0.04

a) Compute the arithmetic mean annual return for Stock S and Stock U. By this measure which stock is most desirable of each stock?   **(5 Marks)**

b) Compute the standard deviation of the annual rate of return for Stock S and Stock U? Which stock is most preferable considering this measure?   **(5 Marks)**

c) Compute the coefficient of variation for Stock S and Stock U. By this relative measure of risk, which stock is preferable?   **(5 Marks)**

d) Compute the geometric mean rate of return for Stock S and Stock U. Discuss the difference between the arithmetic mean return and the geometric mean return for each stock.   **(5 Marks)**

e) Briefly explain the meaning of the term investment and discuss the overall purpose people have for investing.   **(5 Marks)**

Total: (25 Marks)

QUESTION 2

a) You are an investment Manager for Siza Corporation and have been approached by a client who has been reading newspapers on investing and is keen to invest for retirement. Advice the client by writing a brief report on what portfolio management process entails. **(20 Marks)**

b) Differentiate between systematic and non-systematic risk. **(5 Marks)**

Total: (25 Marks)

QUESTION 3

a) Discuss three factors that cause investors to consider including various global securities in their portfolios? **(6 Marks)**

b) Define a futures contract and briefly explain three benefits that are to be attained by individual investors, bond portfolio managers and corporate financial managers by using them. **(6 Marks)**

c) You are given the following long run annual rates of return for alternative investments instruments:

Swaziland Government T-bills	3.50%	(2 Marks)
Large – cap common stock	11.75	(2 Marks)
Long – term corporate bonds	5.50	(2 Marks)
Small – Capitalization Common stock	13.10	(2 Marks)

The annual rate of inflation during this period was 3%. Compute the real rate of return on these investments.

d) Discuss how an individual's investment strategy may change as he or she moves through the accumulation phase? **(5 Marks)**

Total: (25 Marks)

QUESTION 4

a) Why do most investors hold diversified portfolios　　　　**(5 Marks)**

b) You hold common stock in GlaxoSmithKline (GSK) LTD. Considering the world economic outlook for the coming year, you expect the rate of return for the common stock to be between -20 percent and +40 percent with the following probabilities:

Probability	Possible Returns
0.10	-0.20
0.15	-0.05
0.20	0.10
0.25	0.15
0.20	0.20
0.10	0.40

Required: Compute the expected rate of return $E(R_i)$ for GSK LTD　　　**(8 Marks)**

c) Given the following market values of stocks in your portfolio and their expected rates of return, what is the expected rate of return for your common stock portfolio?　　　**(12 Marks)**

Stock	Market Value (E Mil.)	$E(R_i)$
Nedbank	15 000	0.14
RSSC	17 000	-0.04
SD Empowerment	32 000	0.18
Saprop	23 000	0.16
SBC LTD	7 000	0.12

Total: (25 Marks)