

UNIVERSITY OF ESWATINI
DEPARTMENT OF ACCOUNTING AND FINANCE
SUPPLEMENTARY/ RESIT EXAMINATION PAPER JANUARY 2020

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 2020

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.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

During the past five years, you owned two stocks that had the following rates of return:

Year	Stock A	Stock B
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

- Compute the arithmetic mean annual return of each stock and indicate the most desirable by this measure. (5 Marks)
- Compute the standard deviation of the annual rate of return for each stock and indicate the preferable stock based on this measure. (5 Marks)
- Compute the coefficient of variation for each stock and based on the relative measure of risk, which stock is preferable. (5 Marks)
- Compute the geometric mean rate of return for each stock. Discuss the difference between the arithmetic mean return and the geometric mean return for each stock. (5 Marks)
- Nathi Dlamini is considering to buy German Stocks. Identify and briefly explain the kind of risks he can anticipate to face for this investment. (5 Marks)

Total: (25 Marks)

QUESTION 2

- a) Briefly explain why 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:

<u>Probability</u>	<u>Possible Returns</u>
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 expected return 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? (12Marks)

<u>Stock</u>	<u>Market Value (E Mil.)</u>	<u>E(R_i)</u>
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)

QUESTION 3

- a) Discuss the importance of the policy statement. (18 Marks)
- b) Briefly explain the determinants of the required rate of return? (7 Marks)

Total: (25 Marks)

QUESTION 4

- a) "Young people with little wealth should not invest money in risky assets such as the stock market, because they can't afford to lose what little money they have."
Do you agree or disagree with this statement? Why? (5 Marks)
- b) Mrs Madlazi, your healthy 63 year old neighbour is about to retire and comes to you for advice. From talking to her, you find out she was planning on taking all the money out of her company's retirement plan and investing it in bond mutual funds and money market funds. What advice would you give her? (5 Marks)
- c) Discuss how an individual's investment strategy may change as he or she goes through the accumulation and consolidation phase of life. (10 Marks)
- d) Your 45 year old uncle, John is 20 years away from retirement; your 35 year old older sister, Elsa is about 30 years away from retirement. How might their investment policy statements differ? (5 Marks)

Total: (25 Marks)