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| **SESSION** | **FEB MARCH 2025** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **III** |
| **COURSE CODE & NAME** | **DFIN301 SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT** |
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**Assignment Set – 1**

**Q1. a) Mrs. Rohit invested in 500 shares of ₹ 100 each(face value) of HDFC Bank in 2020 at ₹ 1,500 per share. The company declared a dividend @ 20% for the financial year 2021-22. The market price of a share on 1.4.2021 was ₹ 1,800, and on 31.3.2022, it was ₹ 2,000. Determine the annual return on her investment for the year 2021-22.**

**b) Discuss the rationale behind investors constructing diversified portfolios instead of concentrating investments in individual securities 5+5**

### **Ans 1.**

### **(a) Calculation of Annual Return on Investment for the Year 2021–22**

**Given Data:**

| Particulars | Value |
| --- | --- |
| Number of shares | 500 |
| Face value per share | ₹100 |
| Purchase price per share (2020) | ₹1,500 |
| Market price on 1.4.2021 | ₹1,800 |
| Market price on 31.3.2022 | ₹2,000 |
| Dividend declared @ 20% (on FV ₹100) | ₹20 per share |

**Step 1: Calculate Dividend Income**

**Step 2: Calculate Capital Gain**

**Step 3: Calculate Total Return**

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**Q2.a) Explain the concepts of 'investment,' 'security,' and 'security analysis and portfolio management' in the context of financial decision-making.**

**b) GHI Technologies has a common stock that paid its annual dividend today. The dividend expected one year from now is ₹50, and dividends are projected to grow at a constant rate of 4.5% annually in perpetuity. If the required rate of return on similar-risk stocks is 15% per annum, what is the current price of a share of GHI Technologies? 5+5**

**Ans 2.**

### **(a) Explanation of Investment, Security, and Security Analysis & Portfolio Management**

**Investment**

Investment refers to the allocation of funds into assets or financial instruments with the expectation of generating income or profit in the future. Individuals and institutions invest to achieve financial goals such as wealth creation, retirement planning, or capital preservation. Investments can be made in assets like stocks, bonds, mutual funds, or real estate. A sound investment is guided by objectives like risk tolerance, expected return, and time horizon.

**Security**

A security is a financial instrument that holds monetary value and can be traded. It represents

**Q3. Critically examine the key principles of Dow Theory and evaluate its relevance and significance in modern technical analysis. 5+5**

**Ans 3.**

**Key Principles of Dow Theory and Its Relevance in Modern Technical Analysis**

**Understanding Dow Theory**

Dow Theory is one of the earliest foundations of technical analysis, developed by Charles H. Dow in the late 19th century. It is based on a series of editorials he wrote for The Wall Street Journal, later expanded upon by his successors. Dow Theory focuses on market trends and their behavior over time. It assumes that market prices move in trends and that these trends can be identified and analyzed for investment decisions.

**Key Principles of Dow Theory**

Dow Theory is built on six core tenets. Firstly, it states that the market has three movements: the

**Assignment Set – 2**

**Q4. Differentiate between systematic and unsystematic risk. In what ways does diversification influence each type of risk?**

**Ans 4.**

**Systematic vs. Unsystematic Risk and the Role of Diversification**

**Systematic Risk**

Systematic risk refers to the inherent risk associated with the entire market or a particular segment of it. This type of risk is uncontrollable and arises due to macroeconomic factors such as interest rate changes, inflation, political instability, or natural disasters. Since it affects the overall market, systematic risk cannot be eliminated through diversification. Investors must manage it through asset allocation and hedging strategies. It is also known as market risk or non-

**Q5. a) Mr. Arvind is considering investing in a stock currently priced at ₹120 per share. The stock offers an annual dividend yield of 4% and has a beta of 1.5, indicating higher volatility compared to the market. Given that the risk-free rate is 4% and the expected market return is 9% per annum, calculate the expected return on the stock using the Capital Asset Pricing Model (CAPM).**

**b) Explain with examples the heuristic biases and cognitive errors that influence judgment.**

**Ans 5.**

### **(a) Calculating Expected Return Using CAPM**

**Given Data:**

| Parameter | Value |
| --- | --- |
| Current Stock Price | ₹120 |
| Dividend Yield | 4% (not used in CAPM) |
| Beta (β) | 1.5 |
| Risk-Free Rate (Rf) | 4% or 0.04 |
| Expected Market Return (Rm) | 9% or 0.09 |

**Formula: Capital Asset Pricing Model (CAPM)**

**Step-by-Step Calculation:**

**Q6. Explain the major types of mutual funds and illustrate how each type addresses the diverse needs and risk preferences of investors, using relevant examples**

**Ans 6.**

**Major Types of Mutual Funds and Their Alignment with Investor Needs and Risk Preferences**

**Equity Mutual Funds**

Equity mutual funds primarily invest in stocks and are ideal for investors seeking capital appreciation over the long term. These funds come with higher risk due to market volatility but also offer the potential for high returns. Investors with a high-risk tolerance and a long-term investment horizon often choose equity funds. For example, an investor in their 30s planning for retirement may invest in large-cap or diversified equity funds like the SBI Bluechip Fund to build wealth over time. Equity funds may also include sector-specific funds such as technology