



**UNIVERSITY EXAMINATIONS 2015/2016**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**  
**HBF 2303: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT**

**DATE: DECEMBER, 2015**

**TIME: 2HOURS**

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**INSTRUCTIONS: Answer Question one and any other two questions.**

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**QUESTION ONE: Compulsory**

- a) Explain the semi-strong form efficiency. (2marks)
- b) Describe the Beta factor? (2 marks)
- c) Why are stock characteristic lines different for securities traded in the same market (2marks)
- d) Explain why an estimated absolute covariance number doesn't tell the investor much about the relationship between the returns of the two assets (4 marks)
- e) You have been asked for your advise in selecting a portfolio of assets and have benne given the following data:

**Expected Return**

<b>Year</b>	<b>Asset A</b>	<b>Asset B</b>	<b>Asset C</b>
2004	12%	16%	12%
2005	14	14	14
2006	16	12	16

No probabilities have been supplied. You have been told that you can create two portfolios. One consisting of assets A and B and other consisting of assets A and C by investing equal portions (50%) in each of the two component assets.

**Required:**

- i. What is the expected return for each asset over the 3 year period? (6 marks)
- ii. What is the standard deviation of each asset's return? (6marks)
- iii. What is the expected return for each of the two portfolios? (6 marks)

**QUESTION TWO**

- a) What might be the limitations of portfolio analysis for the financial manager?  
(8 marks)
- b) A stockbroker calls you and suggests that you invest in HALLIARD POLLY LTD (HPL). After analyzing the firm's annual report and other materials you believe that the distribution of rates of returns as follows;

Possible rate of return	Probability
- 0.60	0.05
-0.30	0.20
-0.10	0.10
0.20	0.30
0.40	0.20
0.80	0.15

**Required:** Compute expected return on this stock (6 marks)

- c) Highlight the main short term investment vehicles (4 marks)
- d) What are the two main strategies that an investor should consider while investing in stock (2 Marks)

**QUESTION 3**

- i. Define and discuss the strong-form EMH. Why do some observers contend that the strong-form hypothesis requires a perfect market in addition to an efficient market? (6 marks)
- ii. Describe a test of the local-form EMH for the Kenya stock market and indicate where you would get the required data. (6 marks)
- iii. What are the variables that affect price earnings ratio? Is the effect direct or inverse for each component? (8 marks)

#### QUESTION 4

- a) Why must assets be evaluated in a portfolio context? What is the efficient portfolio?  
(12 marks)
- b) HASHIM Enterprises' bonds currently sell for 1150, have an 11% coupon interest rate and 1000 per value, pay interest annually and have 18 years to maturity.  
**Required:** Calculate the bonds yield to maturity (YTM) (8 marks)

#### QUESTION 5

- a. Describe key assumptions underlying the CAPM? (8 marks)
- b. What factors might be assumed at APT? (6 marks)
- c. The standard deviation of market returns is 50% and the expected market return is 12%. The risk-free rate of return is 9%. The covariance of returns for the market with returns on shares in Kenpoly Company has been 20%.  
**Required:** Compute beta value for company's equity (6marks)