

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2015/2016**

**SPECIAL/SUPPLEMENTARY EXAMINATION FOR THE DEGREE OF**

**BACHELOR OF COMMERCE**

**HBF 2304: INVESTMENT ANALYSIS AND PORT FOLIO MANAGEMENT**

**DATE: APRIL, 2016 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

a) Define Arbitrage pricing theory (APT) and briefly state the factors usedneed

in the Arbitrage pricing theory. How is APT (Arbitrage pricing theory) different from CAPM. [20 marks]

b) Mr Mike is currently holding a port folio consisting of 2 shares of four

companies quoted on the Bahati Stock Exchange as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Company | Number of Shares held | Beta Equity co-efficient | Market Price per share | Expected return on equity is the next year % |
| A | 20,000 | 1.12 | 65 | 18 |
| B | 30,000 | 0.89 | 50 | 23 |
| C | 30,000 | 0.70 | 45 | 11 |
| D | 20,000 | 1.60 | 80 | 17 |

The current market return is 14% per annum and the treasury bills yield is

9% per annum.

Required

(i) Calculate the risk of Mike port folio relative to that of the market

(ii) Explain whether or not Mike should change the composition of his

port folio

[10 marks]

**QUESTION TWO (20 MARKS)**

a) An investor has two security A and B with the following return

characteristic

|  |  |  |  |
| --- | --- | --- | --- |
| State of the economy | Probability | Return security A | Return security B % |
| Recession | 0.3 | 12 | 6 |
| Stable | 0.4 | 15 | 7.5 |
| Expansion | 0.3 | 10 | 5 |

Required

a) Assess the riskiness of security A and B [10 marks]

b) Describe the difference between systematic risk and unsystematic risk

[4 marks]

c) Explain the following risks

(i) Business risk [2 marks]

(ii) Financial risk [2 marks]

(iii) Risk-adjusted discount rate [2 marks]

**QUESTION THREE (20 MARKS)**

There are different types of derivatives need as tools of financial risk management. Briefly discuss the tools and show how they manage risk in business.

[20 marks]

**QUESTION FOUR (20 MARKS)**

Describe the importance of Technical and fundamental analysis approaches to stock investment.

[20 marks]

**QUESTION FIVE**

a) What are the risk involved in debt investing? [5 marks]

b) The fundamental objective of debt management is raise stable

and low cost funding to meet the financial needs of the firm. Discuss