



ZIMBABWE EZEKIEL GUTI UNIVERSITY
FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 406
COURSE TITLE : INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT
DURATION : 3 Hours
DATE : 19 July 2019

INSTRUCTIONS TO CANDIDATES:

1. Answer ALL questions.
2. Use of silent, non-programmable calculators is allowed.
3. Each question carries 25 Marks.
4. Start each question on a new page of your answer sheet.

Question One

- a) Assume you are holding a portfolio composed entirely of real estate. Discuss the justification, if any, for adopting a mixed asset portfolio by adding long-term government bonds. (5 marks)
- b) Define liquidity and discuss the factors that contribute to it. (3 marks)
- c) State and explain any four characteristics of an efficient market. (4 marks)
- d) Discuss the role of a portfolio manager in a perfectly efficient market. (6 marks)
- e) Many investors called technical analysts claim to observe patterns in stock market prices. Explain whether technical analysis is consistent with the Efficient Market Hypothesis. (4 marks)
- f) 'Preference shares have declined in popularity during recent years.' Suggest reasons why this may be true. (3 marks)

[Total: 25 Marks]

Question Two

- a) Define the role of the following in a rights issue process:
 - i) Stockbroker (2 marks)
 - ii) Commitment fee (2 marks)
 - iii) Underwriter (2 marks)
 - iv) Issuing house (2 marks)
- b) What is the relationship between covariance and the correlation coefficient in investment analysis? (4 marks)
- c) Discuss the key considerations important in determining a dividend policy in a firm in the communication industry in Zimbabwe. (5 marks)
- d) You have recently been appointed Chief Investment Officer of a major charitable organization. Its large endowment fund is currently invested in a broadly diversified portfolio of stocks (60%) and bonds (40%). The foundation's board of trustees is a group of prominent individuals whose knowledge of modern investment theory and practice is superficial. You decide a discussion of basic investment principles would be helpful.
Required: Explain the concepts as they relate to investment management:
 - i) Specific risk, (2 marks)

- ii) Systematic risk, (2 marks)
- iii) Variance, and (2 marks)
- iv) Beta. (2 marks)

[Total: 25 Marks]

Question Three

- a) 'Investment is about taking risks'. In light of this statement discuss the limitations of a Bitcoin from an investors' point of view. (6 marks)
- b) Give four reasons why the analysis of growth potential is important to the common stockholders. (4 marks)
- c) Why is estimating the value for a bond easier than estimating the value for common stock? (2 marks)
- d) Discuss the contention that differences in the performance of various firms within an industry limit the usefulness of industry analysis. (5 marks)
- e) What actions can a company take in order to avoid liquidation? (5 marks)
- f) Explain the limitation in the application of portfolio theory in a developing economy. (3 marks)

[Total: 25 Marks]

Question Four

- a) What are the implications of the Efficient Market Hypothesis on both technical and fundamental analysis? (4 marks)
- b) Simu Ltd has the following projects- all with positive NPVs. Each project is not divisible i.e it can not be part implemented.

Project	Investment required(\$)	NPV at 30%(\$)
A	300 000	100 000
B	40 000	23 000
C	200 000	120 000
D	60 000	45 000
E	150 000	88 000

The company's capital budget is \$300 000.

Required:

- i) Which projects should be selected? (3 marks)
- ii) If there is more than one constraint, how would you select the projects? (3 marks)
- c) When might a company in Zimbabwe repurchase its shares? (5 marks)
- d) Outline and explain the problems with the Capital Asset Pricing Model (CAPM) that affect its use in portfolio management. (6 marks)
- e) In a project why should a company plan its cash flows? (4 marks)

[Total: 25 Marks]

END OF PAPER