

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B. COM ACCOUNTING

COURSE: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

COURSE CODE: CAC406

DURATION: 3 HOURS

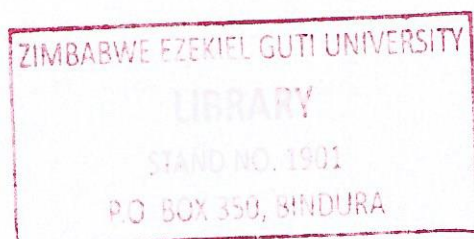
DATE 23 JUNE 2017

INSTRUCTIONS TO CANDIDATES

1. This paper contains **Five (5)** Questions
2. Answer **Four Questions (25 marks each)**
3. Start each question on a new page
4. Marks will be awarded for clear, logical presentation, analysis and argument rather than simple description. Candidates are encouraged to illustrate their answers with practical examples

Authorised Materials:

- i) Non-Programmable Scientific Calculators
- ii) Formula Sheet provided



Question 1

The following table refers to two typical Zimbabweans. Study its contents and answer the following question.

Individual 1	Individual 2
Age: 38 years	Age: 57
Working years: 15 years	Working years: 39 years
Marital Status: Married	Marital status: widowed
Number of dependent children: 3 (all in high school)	Number of dependent children: 0
Owens house: mortgaged	Owens house: yes
Savings: Modest savings. Most decimated during the hyperinflationary period. Started some	Savings: Had some off-shore investments. Local investments and savings decimated during the hyperinflationary period.
Earnings level: High bracket	Earnings level: Middle bracket
Tax bracket: high	Tax bracket: low

Required: In brief, prepare what you would consider the most appropriate investment policy for each of the two individuals paying attention to

- (a) Their phases in the investment life cycle [5 marks]
- (b) Their likely life cycle investment goals [5 marks]
- (c) Their likely investment objectives [5 marks]
- (d) Investment constraints they are likely to face [5 marks]
- (e) How you would advise on asset allocation in their portfolios. [5 marks]

Question 2

Discuss the key characteristics of 'passive' and "active" fund management strategies.

[25 marks]

Question 3

- (a) Discuss the Top-Down - Three-Step Approach in security valuation [15 marks]
- (b) Explain why price – cash flow, price book value and price sale value ratios are superior approaches of security valuation to earning multiplier model.

[10 marks]

Question 4

Critically evaluate the role of Arbitrage Pricing Theory in aiding investor's decision in investment management. To what extent is the APT relevant to Zimbabwe under the dollarised environment?

[25 marks]

Question 5

Discuss four techniques which are used in portfolio evaluation. In each case, with hypothetical examples, clearly demonstrate each technique is used.

[25 marks]

END OF PAPER

Formula Sheet

Expected Return on Asset i: $E(R_i) = \sum_{s=1}^S p(s) \times R_i(s)$, where $p(s)$ is the probability of the states occurring in the economy.

$$Var(R) = \sum p(s) \times (R - E(R))^2 \quad SD(R) = \sqrt{Var(R)}$$

$$E[R] = RFR + \beta \times (M_R - RFR) \quad R_p = \sum_i p(s) \times R_p(s)$$

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$$Var(R) = \sum p(s) \times (R - E(R))^2$$

$$SD(R) = \sqrt{Var(R)}$$

$$T_i = \frac{R_i - RFR}{\beta_i}$$

$$T_M = \frac{R_M - RFR}{\beta_M}$$

$$S_i = \frac{R_i - RFR}{\sigma_i}$$

$$S_M = \frac{R_M - RFR}{\sigma_M}$$

$$E(R_j) = RFR + \beta_j [E(R_M) - RFR]$$

$$CV = \frac{\text{Standard Deviation of Returns}}{\text{Expected Rate of Return}}$$

