UNIVERSITY OF BRADFORD

PORTFOLIO MANAGEMENT

MAN4264M

07 January 2013 **16:00 – 17:.00 hours**

Main

This is a **CLOSED BOOK** examination

Answer any **TWO** questions

Question 1

> "There is little evidence that active fund management can deliver superior investment returns for the consumer" *Office of fair Trading*, 1997.

Discuss the above quotation with respect to the performance of Fund Managers. What evidence exists to support the quotation, and what methods are used to analyse the successful performance, or otherwise, of Fund Managers?

(50 marks)

Question 2

> *As long as there are stock markets there will be mistakes made by the collective judgement of investors. And undoubtedly, some market participants are demonstrably less than rational. As a result, pricing irregularities and predictable patterns in stock returns can appear over time and even persist for short periods. Undoubtedly, with the passage of time and with the increasing sophistication of our databases and empirical techniques, we will document further apparent departures from efficiency and further patterns in the development of stock returns. But I suspect that the end result will not be an abandonment of the belief of many in the profession that the stock market is remarkably efficient in its utilization of information and that whatever patterns or ex post irrationalities have existed are unlikely to persist and will not provide investors with a method to obtain extraordinary returns.*
>
> *(Burton G. Malkiel)*

Comment on the above quote, in the context of informational efficiency, and security market anomalies with which you are familiar.

(50 marks)

Question 3

(i) Explain what is meant by: opportunity set, efficient frontier, indifference curves and the optimum portfolio, in the context of mean-variance portfolio theory.

(40 marks)

(ii) How does the efficient frontier and the optimum portfolio change, with the introduction of risk-free lending and borrowing.

(10 marks)
(50 marks total)

Question 4

1. Lucy Mcclay has savings of £12,000. Of this amount she has invested £6,000 in Treasury Bills which currently yield a return of 6%. The remainder has been invested in a portfolio of four different companies' shares. Details of this portfolio are as follows:

Company	*Expected Return*	*β Shares*	*Worth of Shareholding*
W	7.6%	0.2	£1,200
X	12.4%	0.8	£1,200
Y	15.6%	1.2	£1,200
Z	18.8%	1.6	£2,400

REQUIRED

(i) Calculate the expected return and β value of Mrs Mcclay's savings portfolio.
(10 marks)

(ii) Mrs Mcclay has decided she wants an expected return of 12% on her savings portfolio. Show how she would achieve this by selling some of her treasury Stock, and investing the proceeds in the market portfolio.
(10 marks)

(iii) If Mrs Mcclay were only to invest in Treasury Bills and the market portfolio, what savings portfolio would be required to give her an expected return of 10.32%.
(15 marks)

(iv) If Mrs Mcclay wants to choose between her existing savings portfolio (as in (i)) and the one constructed in (ii), which would you advise and why?
(15 marks)

(50 marks total)