

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT  
UNIT-1

**TWO MARK QUESTIONS**

**1. What is investment?**

Investment refers to a money commitment of some sort for eg: a commitment of money to buy a new car is certainly an investment

**2. What is speculation?**

It is the buying, holding, and selling of stocks, commodities, currencies, collectibles, real estate any valuable thing to profit from fluctuations in its price as opposed to buying it for use. In other words, speculation involves trading a financial instrument involving high risk, in expectation of significant returns.

**3. What is risk in investment management?**

Risk is the unwanted subset of a set of uncertain outcomes, Risk is 'uncertainty of result', either from pursuing positive opportunity, or an existing negative threat in an effort to meet a current goal.

**4. Mention the types of investment a) Security**

or Marketable financial assets:

- Equity shares
- preference shares
- Debentures
- Bonds
- Fixed deposit
- Gilt-edge
- Post office scheme
- Mutual Funds

**b) Non financial form or real assets:**

- Real estate
- Precious objects

**5. What do you mean by derivatives?**

This type of security derives its value from the underlying asset. The value of the backing asset determines the value of the derivative security. A derivative security is mainly used for the purpose of risk management.

**6. What is the concept of risk?**

Risk may be defined as the possibility of suffering an injury or loss. It is present in every field or situation. An important concept in this regard is the idea that an investment carrying a higher risk has the potential of a higher yield.

**7. Define systematic risk**

It is also referred as "Un-diversifiable risk", as it affects the entire markets not one specific stock or industry. It is associated with economic, social, political, and legal aspects of all securities in the economy.

**8. State the types of insurance in India**

- Term life insurance
- Unit linked plans
- Endowment plans
- Money back life insurance
- Whole life insurance
- Child plan
- Retirement plan

**9. What is the concept of return?**

- It helps potential investors in making comparison of returns expected from alternative investment opportunities.
- Measurement of historical returns places the investor in a position to take stock of better performance in the areas of investment.
- Measurement of historical returns also facilitates the assessment of future returns.

**10. Write the economic meaning of investment.**

In the economic sense, investment means the net additions to the economy capital stock which consist of goods and services that are used in the production of other goods and services.

**LONG ANSWER TYPE QUESTIONS:**

**1. Explain the characteristics and objectives of investment**

The market where investment funds like bonds, equities and mortgages are traded is known as the capital market. The primal role of the capital market is to channelize investments from investors who have surplus funds to the ones who are running a deficit. The capital market

offers both long-term and overnight funds. The capital market is the market for securities, where companies and governments can raise long-term funds. It is a market in which money is lent for periods longer than a year.

There are a number of capital market instruments used for market trade, including equity instruments, credit market instruments, insurance instruments, foreign exchange instruments, hybrid instruments and derivative instruments. These are used by the investors to make a profit out of their respective markets.

All of these are called capital market instruments because these are responsible for generating funds for companies, corporations, and sometimes national governments.

This market is also known as securities market because long-term funds are raised through trade on debt and equity securities.

2. Discuss in detail about alternatives of investment
3. Describe the choice and evaluation of investment in detail
4. Discuss the risk involved in investment
5. Discuss the components and types of returns

#### UNIT-II TWO MARKQUESTIONS:

1. Who are the participants in financial markets?
  - Individuals
  - Firms
  - Government
  - Regulators
  - Market Intermediaries.
2. What is money market?

Funds are either borrowed in for a short- term tenure, usually for a period not exceeding one year. It is done through the financial instruments of rather a short- term maturity.
3. Define the term new issue market
  - Public Issue
  - Rights Issue
  - Private placement
  - Preferential allotment
4. What are features of primary market?
  - It is a new source of procuring long-term capital.
  - The investors directly deal with new securities
  - Economy experiences new technology
  - under this private capital is converted into public capital.
5. What is book building method?

In book- building method company offers the price range instead of fixing particular price of shares. It is also known as price discovery method.
6. What is stock exchange?

It means anybody or individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling in securities.
7. Who is BSE?

BSE has been highly responsible for the growth and development of Indian economy and the corporate sector as it has duly access to mechanism for fund raising.
8. Expand OTCEI  

Over the Counter Exchange of India. The listing on an OTC markets confers the same rights to a corporation as they get from listing on any other regular stock exchange. The OTC market in India is known as OTCEI.
9. What is SEBI?

The Securities and Exchange Board of India was established by the government of India through an executive resolution and was subsequently upgraded as a fully autonomous body.
10. Who are brokers?

They transact the transactions for their clients and for other members. The brokers, who work for their clients are called 'commission brokers'.

#### LONG ANSWER TYPE QUESTIONS:

1. Explain the types of financial markets

2. Explain the features and functions of stock exchange
3. Discuss the objectives and functions of SEBI
4. Explain the process of book building method
5. Explain the various powers of SEBI

### UNIT-III

#### TWO MARK QUESTIONS:

1. What is meant by fundamental analysis?  
Fundamental analysis evaluates the core competencies of finance of the business. The analysis is generally done using various ratios. It may be used by the investors on individual basis or may be used in with other techniques for determining the potential of an investment.
2. State the objectives of fundamental analysis
  - To forecast the business performance
  - To assess the performance of its management and their decision making
  - For determining its credit rating
3. What do you mean by economic analysis?  
It may be defined as a process, which analysis the various weak points as well as strong points prevailing in an economy. such an analysis is necessitated to have an unbiased understanding of the state of an economy.
4. What are stock investment decisions?  
Before an investor commits funds for investment in the market, he must decide if the time is right to invest in securities or not, and if so, he must then decide which type of security is to be purchased under the circumstances.
5. What is industry analysis?  
A group of productive or profit making under prices or organizations that have a similar technological structure of production and that produce or supply technically substitutable goods services or sources of structure of production and that produce or supply technically substitutable good service.
6. What do you mean by company analysis?  
It involves assessment of a company performance in term of it profitability, marketshare, dividend payments etc.
7. What is ratio analysis?  
Ratios between various financial data are considered to be one of the most important indicators which can be used for company analysis. They enable the professional analysts to undertaken a comparative study with in a company.
8. What is price earning ratio?  
There are several dividend discount models available for valuing equity shares. It the one of most widely used methods for valuing equity shares. The ratio shows the price paid for each rupee of the earning of the company.
9. What is economic forecasting?  
It is a term used to apply to any methods that are utilized to predict the future movements of an economy. The forecasting may focus on a specific portion of a economy predicting the movement of the economy as a whole.
10. Write the classification of industry?
  - a) Reporting agencies
  - b) Business cycle
  - c) Industry groups
  - d) Input based industries

#### LONG ANSWER TYPE QUESTIONS

1. Explain fundamental analysis with it strength and weaknesses.
2. Explain in detail about industry life cycle and the encountering strategies of each stage.
3. What is the importance of industry analysis? Discuss the factors affecting the industry analysis.
4. Discuss the Graham and Dodd's investor ratios.
5. Elaborate the applied valuation techniques under the company analysis.

### UNIT –IV

#### TWO MARK QUESTIONS

1. What is technical analysis?

It security is a logical explanation and projection of possible changes in its market price exclusively on the basis on in- depth study of the available data in the market.

2. Define bar chart  
It consist of a chain of vertical / horizontal bars, each of which reflects price movement for a day. A particular day's lowest price as well as the highest price is indicated on a bar, which can be instantly viewed by a analyst.
3. What is dow theory?  
Charles dow is considered as father of 'model technical analysis' in the west. According to which any movement in stock market is not arbitrary, but is impacted by three specific trends, which are cyclic in nature.
4. What are trend and trend reversals?  
A trend may be defined as the direction in which the majority of share prices move I themarket. It may be either upward trend or a downward trend.
5. What is moving average?  
It is a tool which is helpful in determining the basic trend of the price movement in scientific manner. Professionals in this field are known as moving average techniciansare rate of change technicians.
6. What is meant by oscillators?  
Basically all the time- series have the distinctive feature of oscillating. The nature of trends and cycles is also oscillating, as they are considered time- series. Definition of the term 'oscillation' in the field of technical analysis may vary from person to person.
7. Mention the different volume indicators
  - New York and American stock exchange volume.
  - Short- selling theory
  - Contrary opinion theories
  - Odd-lot theory
8. Which are the indicators of weak form of market?
  - Simulation test
  - Filter test
  - Serial correlation test
  - Runs test
  - Spectral analysis
9. What is efficient market theory?  
This theory attempts to explain the changes in security prices according to this hypothesis , the stock price reflects the impact of all the information available. It also suggests that the financial markets are efficient.
10. What are limitations of random walk theory?
  - Random walk theory presupposes the existence of perfect market consisting of rational participants and with free flow of information.
  - The theoretical base of the hypothesis consists of indices such as S&P and NASDAQ.

#### LONG ANSWER TYPE QUESTIONS.

1. Describe the tools and techniques of technical analysis?
2. Describe the price indicators in detail.
3. Explain the Dow theory.
4. Explain the efficient market theory with its assumptions and different forms.
5. What is random walk theory? Discuss its implications and limitations.

#### UNIT-V

#### TWO MARK QUESTIONS

1. What is meant by portfolio management?  
It refers to the method in which the formation and management of an investment portfolio is done. It includes security analysis, portfolio analysis, portfolio selection, portfolio revision and portfolio evaluation.
2. Define portfolio.  
It refers to the combination of different securities like shares, debentures, mutual funds in which the

different investor invests so as to get maximum return.

3. What do you mean by portfolio risk?  
The portfolio rate of return are just the weighted average rate of return of individual assets in the given portfolio.
4. What is covariance?  
It reflects the degree to which the returns of the two securities vary or change together. A positive covariance means that the returns of the two securities move in the same direction.
5. What is portfolio selection?  
The main aim of investment is to maximize the return for the invested. At the same time, the risk also needs to be minimized.
6. What is meant by CAPM?  
Capital asset pricing model describes the way in which the rational investor should plan their portfolios. It explains the pricing of assets in capital market as the investor works according to portfolio theory.
7. What is portfolio revision?  
Revision of the portfolio from time to time is, as significant as portfolio analysis and selection. This is necessitated with a view to ensuring that a portfolio retains its quality of optimality.
8. What do you mean by Beta?  
The beta is used to measure the non-diversifiable risk which is also known as systematic risk. It explains the way in which the security price will be affected due to the change in market price.
9. Define the term mutual funds.  
Corporations which accept dollars from savers and then use these dollars to buy stocks, long term bonds, short term debt instrument issued by business units, these corporations pool funds and thus reduce risk by diversification.
10. Write the benefits of the mutual funds.
  - Transparency
  - Diversification
  - Research
  - Stability
  - Tax benefits

#### LONG ANSWER QUESTION

1. Explain portfolio analysis in detail.
2. Describe the portfolio risk and return.
3. Explain CAPM with its assumptions and applications.
4. Elaborate the portfolio revision methods in detail.
5. Explain in detail about evaluation of portfolio.