

SEMESTER V

FC 501: INVESTMENT ANALYSIS & PORTFOLIO MANAGEMENT

Course Objectives:

The aim of this course is to provide a conceptual framework for analysis from an investor's perspective of maximizing return on investment – a sound theoretical base with examples and References: related to the Indian financial system. Emphasis will be on understanding of the forces that influence the risk and return of financial assets and related models and theories.

Learning Outcomes:

On successful completion of this course students will be able to

- Understand the measures of risk and return based on the characteristics of different financial assets and value assets such as stocks and bonds for investment
- Will be able to analyse risk and returns of fixed income instruments and stocks using various models for the purpose of investment.
- Measure the risk and return of a portfolio position and diversify and manage investment portfolios in accordance with a person's risk pReferences:
- Understand and evaluate investment advice from brokers and the financial press

Course Contents:

Unit I

(2 weeks)

Basics of risk and return: concept of returns, application of standard deviation, coefficient of variation, beta, alpha. Bonds: present value of a bond, yield to maturity, yield to call, yield to put, systematic risk, price risk, interest rate risk, default risk. Yield curve and theories regarding shape of yield curve. Unsystematic risk and non-risk factors that influence yields. Bond Convexity, Active & Passive investment strategies of bonds Duration and modified duration, immunization of a bond portfolio. Fundamental analysis: EIC framework; Economic analysis: Leading lagging & coincident macro-economic indicators, Expected direction of movement of stock prices with macroeconomic variables in the Indian context; Industry analysis: stages of life cycle, Porter's five forces model, SWOT analysis, financial analysis of an industry; Company analysis.

References:

Reilly, F. K. & Brown, K.C. (2012) Analysis of Investments and Management of Portfolios (12th edition), Cengage India Pvt. Ltd- Chapter 1, 17, 18, 19, 10, 11, 12, 13, 14.

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Ranganathan, M., & Madhumathi, R. (2006). Investment analysis and portfolio management. New Delhi: Pearson Education- Chapter-1, 5, 6, 9, 10, 11

Unit II

(3 weeks)

Share valuation: Dividend discount models- no growth, constant growth, two stage growth model, multiple stages; Relative valuation models using P/E ratio, book value to market value. Technical analysis: meaning, assumptions, difference between technical and fundamental analysis; Price indicators- Dow theory, advances and declines, new highs and lows- circuit filters. Volume indicators- Dow Theory, small investor volumes. Other indicators- futures, institutional activity, Trends: resistance, support, consolidation, momentum- Charts: line chart, bar chart, candle chart, point & figure chart. Patterns: head & shoulders, triangle, rectangle, flag, cup & saucer, double topped, double bottomed, Indicators: moving averages. Efficient market hypothesis; Concept of efficiency: Random walk, three forms of EMH, Empirical tests of market efficiencies and their results, behavioural biases and investments; Implications for investment decisions.

References:

Reilly, F. K. & Brown, K.C. (2012) Analysis of Investments and Management of Portfolios (12th edition), Cengage India Pvt. Ltd- Chapter 11, 16, 6

Ranganathan, M., & Madhumathi, R. (2006). Investment analysis and portfolio management. New Delhi: Pearson Education- Chapter-7, 12, 13

Unit III

(3 weeks)

Portfolio analysis: portfolio risk and return, Markowitz portfolio model: risk and return for 2 and 3 asset portfolios, concept of efficient frontier & optimum portfolio. Market Model: concept of beta systematic and unsystematic risk. Investor risk and return pReferences: Indifference curves and the efficient frontier, Traditional portfolio management for individuals: Objectives, constraints, time horizon, current wealth, tax considerations, liquidity requirements, and anticipated inflation, Asset allocation: Asset allocation pyramid, investor life cycle approach, Portfolio management services: Passive – Index funds, systematic investment plans. Active – market timing, style investing.

References:

Reilly, F. K. & Brown, K.C. (2012) Analysis of Investments and Management of Portfolios (12th edition), Cengage India Pvt. Ltd- Chapter 7

Ranganathan, M., & Madhumathi, R. (2006). Investment analysis and portfolio management. New Delhi: Pearson Education- Chapter-16, 17, 20, 21, 22

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Unit IV

(3 weeks)

Capital asset pricing model (CAPM): Efficient frontier with a combination of risky and risk free assets. Assumptions of single period classical CAPM model. Characteristic line, Capital Market Line, Security market Line. Expected return, required return, overvalued and undervalued assets. Black's Zero Beta Model. Multiple factor models and Arbitrage Pricing Theory, APT vs CAPM. Mutual Funds: Introduction, calculation of Net Asset Value (NAV) of a Fund, classification of mutual fund schemes by structure and objective, advantages and disadvantages of investing through mutual funds. Performance Evaluation of Managed Funds using Sharpe's, Treynor's and Jensen's measures and Fama's Decomposition.

References:

Reilly, F. K. & Brown, K.C. (2012) Analysis of Investments and Management of Portfolios (12th edition), Cengage India Pvt. Ltd- Chapter 8, 9,25
Ranganathan, M., & Madhumathi, R. (2006). Investment analysis and portfolio management. New Delhi: Pearson Education- Chapter-18, 19,20, 21, 22

Text Books:

1. Fischer, D.E. & Jordan, R.J. (2006) Security Analysis & Portfolio Management (6th edition), Pearson Education.
2. Ranganathan, M., & Madhumathi, R. (2006). Investment analysis and portfolio management. New Delhi: Pearson Education.

Additional Readings:

1. Fabozzi, Frank. (2009). Bond Markets, Analysis and Strategies (7th ed.). Prentice-Hall Publishing
2. Reilly, F. K. & Brown, K.C. (2012) Analysis of Investments and Management of Portfolios (12th edition), Cengage India Pvt. Ltd.

Note: Latest edition of the readings may be used.

Teaching Learning Process:

Class room lecture, Case study discussion, Numerical Problem solving, Class presentation on the assigned topic by students individually or in group, Workshop, Tutorials, Role play

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Assessment Methods:

1. Internal evaluation of 25% marks
 - a. Attendance 5% marks
 - b. Two internal evaluations by the teacher with 10% marks each out of which one must be a class test and other may be another test or home assignment or presentation. Faculty may take more than two assignments and (or) tests but total will be only 20% marks.
2. End term University Exam of 75% marks

Key words:

Risk and return, Yield curve, EIC framework, Capital asset pricing model, Mutual funds, Performance Evaluation