

BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
DEPARTMENT OF BANKING AND FINANCE
INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT BS419/BS240
3 HOURS (100 Marks)

JUN 2024

INSTRUCTIONS TO CANDIDATES

1. Answer any four questions.
2. All questions carry equal marks.
3. Credit will be given for grammatically well-constructed answers.

QUESTION ONE

- a) Your healthy 64-year old relative about to retire and comes to you for advice. From talking with her, you find out he was planning on taking all the money out of his company's retirement plan and investing it in bond mutual funds and money market funds. What advice would you give her? (8)
- b) Explain the importance of an investment policy statement in a firm such as Old Mutual. (8)
- c) Segen of XYZ Ltd Pension Fund has historically invested in the stocks of only Zimbabwe- domiciled companies. Recently, he has decided to add international exposure to the plan portfolio.

Required:

Identify and explain three potential problems that Segen may confront in selecting international stocks that he did not face in choosing Zimbabwean stocks. (9)

[25 Marks]

QUESTION TWO

- a) 'In an Initial Public Offer (IPO) an investor needs to be wary if a stock opens below its issue price. Some institutional investors may look to limit their losses by getting out quickly and this could depress the price even further.'

Required:

Explain any three scenarios that can motivate an investor thinking of buying into an upcoming IPO. (6)

- b) Melkose's equity section of the Statement of Financial Position shows the following information:

Table 1

Common Shares (par \$1)	\$1 000 000
Capital Reserve	\$800 000
Retained earnings	\$4 200 000

Shareholders Equity	\$6 000 000
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The current share price of Melkose is \$10 per share. What will be the impact to a shareholder of each of the following on the Statement of Financial Position and Earnings Per Share (EPS)?

- i) 2 for 1 stock split; (2)
- ii) 1 for 2 consolidation; and (2)
- iii) Share buyback of 10%. (2)
- c) Explain the key factors that financial analysts should consider when evaluating prospective investments in the mining industry. (4)
- d) Critically analyze how the following theories of the term structure of interest rates apply in Zimbabwe's financial markets: (3)
- i) Expectations Hypothesis, (3)
- ii) Liquidity Preference Theory, and (3)
- iii) Market Segmentation. (3)

[25 Marks]

QUESTION THREE

- a) "The greatest equity buying opportunity of a lifetime." That's how Bell Potter's equities guru Charlie Aitken described the outlook for shares last week before the index rounded out its worst month in two years and 10-year government bond yields sank to their lowest level in 64 years. "I had a shocker in May," he concedes. It got worse for Aitken: resource stocks, which had been on his high conviction list, were hit hard over fears of a slowing China. While gracefully admitting to clients he was "completely on the wrong side of risk and market correction," Aitken insists that sustainable, yield stocks still present a better opportunity than rushing to government bonds as the woes of Europe and China rage on. Source: "It's all about the yield" Australian Financial Review (2nd June 2021)
- Required:** Critically evaluate Charlie Aitken's claim that buying shares represents "the greatest equity buying opportunity of a lifetime". (12)

- b) Suppose the risk free rate of return is 10% and the expected return on the market portfolio is 15%. The expected returns for four stocks are listed against their expected betas as in Table 2 below:

Table 2

Stock	Expected return	Expected Beta
A	17.0%	1.3
B	14.5%	0.8
C	15.5%	1.1
D	18.0%	1.7

- Based on the expectations, which stocks are overvalued? (5)
- c) You own stocks in Seed Co Limited, and you read in the financial press that a recent bond offering has raised the firm's debt/equity ratio from 35% to 55%.

Discuss how this change would affect your required rate of return on the common stock of Seed Co Limited. (8)

[25 Marks]

QUESTION FOUR

- 'Investment finance may be limited even when a company has attractive investment opportunities available to it?' Discuss the reasons for soft capital rationing to a private firm operating in Zimbabwe. (10)
- Briefly describe four techniques considered in the active equity portfolio management strategy. (8)
- Justifying your answer, discuss, at what stage in the industrial life cycle would you like to invest in an industry. (7)

[25 Marks]

QUESTION FIVE

- 'The bottom line is that there is no one way to pick stocks. Better to think of every stock strategy as nothing more than an application of a theory - a "best guess" of how to invest.' Explain any six stock picking strategies that may be used by an investor to pick stocks. (6)
- From an investment analyst point of view, explain some of the leading and lagging economic indicators. (6)
- Briefly explain the difference between a competitive bid underwriting and a negotiated underwriting. (4)
- From a financial analyst's perspective, explain what investors consider to select a company to invest within the same industry? (9)

[25 Marks]

QUESTION SIX

- From an analyst point of view, are crypto currencies a financial asset or just a currency? (4)
- You have securities A and B as in Table 3 below:

Table 3

	Security A	Security B
Expected Return	22%	25%
Standard Deviation	11%	15%

- With explanations, which of these securities should the investor select? (3)
- Discuss three strategies passive managers can use to add value to their portfolios. (8)
 - Analyze the role of a portfolio manager in a perfectly efficient market. (10)

[25 Marks]

END OF PAPER