BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT BS419/BS240

3 HOURS (100 Marks)

OCT 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) Explain any three factors that cause Zimbabwe's investors to consider including global securities in their portfolios. (6)

b) Joe of GLX Ltd Pension Fund has traditionally traded 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 Joe may confront in selecting international stocks that he did not face in choosing Zimbabwean stocks. (10)

c) Critically analyze the following theories of the term structure of interest rates in Zimbabwe's financial markets:

i) Expectations Hypothesis, (3)

ii) Liquidity Preference Theory, and (3)

iii) Market Segmentation. (3)

[25 Marks]

QUESTION TWO

a) Outline the purpose of Security Market Indicator Series in the Zimbabwe's financial sector. (6)

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

Table 1

Common Shares (par $1)	$1 000
Capital Reserve	$800
Retained earnings	$4 200
Shareholders Equity	$6 000

The current share price of MEL 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; (3)

ii) 1 for 2 consolidation; and (3)

iii) Share buyback of 10%. (3)

c) 'It is not necessary to invest in many counters because its costly and a hassle.' Discuss this statement in view of portfolio management. (10)

[25 Marks]

QUESTION THREE

a) '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. (9)

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

On the basis of the expectations which stocks are overvalued? (8)

c) You own stocks in Ariston Holdings, 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 Ariston Holdings. (8)

[25 Marks]

QUESTION FOUR

a) Explain the reasons for Soft Capital rationing to a private firm operating in Zimbabwe. (6)

b) Briefly describe four techniques considered in the active equity portfolio management strategy. (8)

c) Why do analysts use financial ratios rather than the absolute numbers? (6)

d) Justifying your answer, discuss, at what stage in the industrial life cycle would you like to invest in an industry. (5)

[25 Marks]

QUESTION FIVE

a) Explain the following terms as used in stock trading:

i) Market order; (2)

ii) Limit sell order; and (2)

iii) Limit buy order. (2)

b) From an investment analyst point of view, explain some of the leading and lagging economic indicators. (6)

c) Briefly explain the difference between a competitive bid underwriting and a negotiated underwriting. (4)

d) From a financial analyst's perspective, what are the comparisons considered within an industry? (9)

[25 Marks]

QUESTION SIX

a) 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 should the investor select? (3)

b) How does the Security Market Line (SML) differ from the Capital Market Line (CML)? (4)

c) Analyze the role of a portfolio manager in a perfectly efficient market. (9)

d) Discuss three strategies active managers can use to add value to their portfolio. (9)

[25 Marks]

END OF PAPER