

Project Assignment
RISK, RETURN AND PORTFOLIO MANAGEMENT
(ASN: 01-01-2-510)

Submitted by

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Masters of Business Studies (MBS)
Faculty of Management

Batch: 01-2021(2078)

Subject: Financial Management

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Section: A

Subject Code: FIN-510

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Student's Signature:

1. Background

There are so many investment alternatives to earn the money and grow and gain the money. We can invest either securities, land, buildings, business, gold and others or bank deposit too. The core concern of the investment is to earn the money and increment in present wealth position however its is not so easy and there is not guarantee to gain as we expected and there may be loss too. So, There is the also a risk component in the investment thus we must be careful about risk and return

2. Theoretical Discussion

Return is the surplus amount after deduction of investment out of total value and cash receipt from the investment. It is defined as increment of value of wealth over the investment. Return is classified into two type i.e. normal gain and capital gain.

Normal gain is the amount earned from mobilization or operation of asset like: rent form building, crops from land, dividend form share and interest from bond etc.

Likewise, capital gain is gained from selling of asset or investment and it is generated due to the change in price or value of asset.

Thus return or gain is written in terms of amount and percentage too.

Return(Amount)= Capital Gain + Normal Gain

$$= (\text{Selling Price}-\text{Purchase Price}) + \text{Cash Receipt} = (P_1 - P_0) + C_1$$

$$\text{Return}(\%) = \frac{(P_1 - P_0) + C_1}{P_1}$$

3. Core Issue of the Project Work

There are three alternative available here to invest and they have own features in terms of return, net return tax perspective and risk element too. And there is another option of investment in portfolio of asset A & B. that can diversify the risk as well as return too. So, it is the core issue of investment regarding return and risk as well as portfolio concept that will help to make decision for investment.

4. Calculation/Discussion & Analysis:

(a) Calculation of expected return stock A, B and market.

P _i	R _A (%)	R _B (%)	R _M (%)	R _A P _i	R _B P _i	R _M P _i
0.10	-10.00	-35.00	3.00	-1.00	-3.50	0.30
0.20	2.00	0.00	5.00	0.40	0.00	1.00
0.40	12.00	20.00	18.00	4.80	8.00	7.20
0.20	20.00	25.00	25.00	4.00	5.00	5.00
0.10	38.00	45.00	35.00	3.80	4.50	3.50
				ΣRMP _i =12	ΣRJP _i =14	ΣRMP _i = 17.00

5. Findings/Summary & Conclusion:

Annex-i

Project Assignment



Birendra Bidhya Mandir Campus

Tikapur, Kailali

Faculty of Management

Pre-Board Examination 2079

Level: Master of Business Studies(MBS)

Semester: II

Subject: Financial Management

Code:FIN-510

Type of Exam: Project Assignment

ASN: 01-01-2-510

Full Marks: 12

Pass Marks: 6

Submission Date: Till 2079-06-30

Project Assignment Case

You have Rs 5,00,000 fund and want to invest in best alternative. You searched the different investment possibilities in the market and you also observed the financial market. A bank has offered 6 % annual interest in one year deposit and 5 % tax applicable on interest and there is another alternative is government bond that provides 5 % return in one year period which will be tax exempted. The third alternative is to invest in stock A & B. You are the rational investor. So far, your investment decision will consider the basic investment analysis based on risk and return. You can invest your whole money in deposit, government bond or stock A or in stock B and similarly you can construct the portfolio too. Then calculate the necessary measures to assess the investment and make appropriate decision. The following are the probability distribution and expected future returns of stock A and B as well as market return too.

Probability	0.10	0.20	0.40	0.20	0.10
Return "A"	-10 %	2 %	12 %	20 %	38 %
Return "B"	-35 %	0	20 %	25%	45 %
Market Return	3%	5 %	18 %	25 %	35 %

Required:

- Calculate the expected return of two stocks and market.
- What will be your final conclusion about investment in deposit, government bond or stock(A & B) in absolute term of return?
- Calculate standard deviation of two stocks A & B as well market return?
- Which stock will be your preference of investment in terms of absolute risk?
- What will be your decision regarding investment selection in respect of risk and return relatively?
- What is the correlation between stock A & B, stock A & market, stock B & market
- Calculate co-efficient of variance(CV) of two stock what they mean ?
- What is the beta co-efficient of Stock A & B with market?
- What is the risk level of riskier stock and how much risk should bear to earn the expected return is 15 % on less riskier stock?
- What is the portfolio return, standard deviation and beta if you invest 40 % in stock A and rest of amount in stock B. Now make a decision regarding investment out of all alternatives(A, B & portfolio) & justify.
- Calculate the required rate of return of stock A, B and portfolio if rate of return on T-bill is 5 %.
- Portfolio is the best tools for risk diversification it can diversify(increase or decrease) the risk through optimal portfolio. If So, is there any possibility to minimize the risk ? Justify your answer with additional alternative two portfolio as an example.

- (n) How many type of risk ? Explain about them.
- (o) Separate the total risk(σ) into the different risk according to their type?
- (p) On the basis of structure of the risk to what extent of the risk can be diversified in each case Stock A & B. Logically Justify your answer with evidence.

Present your final conclusion regarding this case/problem as the theme of risk & return and portfolio.

BEST OF LUCK !