

DSE I: MDF 504: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

Course Objective:

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.

Learning Outcomes:

On successful completion of the course students will be able to

1. Value financial assets such as stocks and bonds
2. Measure the risk and return of a stock or a portfolio position
3. Diversify and manage investment portfolios in accordance with a person's risk Preferences
4. Understand and evaluate investment advice from brokers and the financial press

Course Contents:

Unit I

(3 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. 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:

Fischer, D.E. & Jordan, R.J. Security Analysis & Portfolio Management, (6th edition) Pearson Education. Chapters 1,3,4,5,6,9,10.

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

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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 and implications for investment decisions. (No numericals in EMH and technical analysis)

References:

Fischer, D.E. & Jordan, R.J. Security Analysis & Portfolio Management, (6th edition) Pearson Education. Chapters 15,16.

Sharpe, W.F., Alexander, G.J. & Bailey, J. Investments, (6th edition), Prentice Hall of India. Chapter 15

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:

Fischer, D.E. & Jordan, R.J. Security Analysis & Portfolio Management, (6th edition) Pearson Education. Chapters 17,18

Sharpe, W.F., Alexander, G.J. & Bailey, J. Investments, (6th edition), Prentice Hall of India. Chapter 7,8.

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. Mutual Funds: Introduction, calculation of Net Asset Value (NAV) of a Fund, classification of mutual fund schemes by structure and objective, advantages and

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disadvantages of investing through mutual funds. Performance Evaluation using Sharpe's Treynor's and Jensen's measures.

References:

Fischer, D.E. & Jordan, R.J. Security Analysis & Portfolio Management, (6th edition) Pearson Education. Chapters 19, 20

Text Books:

1. Fischer, D.E. & Jordan, R.J. Security Analysis & Portfolio Management, (6th edition) Pearson Education.
2. Sharpe, W.F., Alexander, G.J. & Bailey, J. Investments, (6th edition), Prentice Hall of India.

Additional Readings:

1. Frank K Reilly & Keith C Brown, (2012) Analysis of Investments and Management of Portfolios (12th edition), Cengage India Pvt. Ltd.
2. Chandra, P. (2017) Investment Analysis and Portfolio Management; Tata McGraw Hill Education Private Limited

Note: Latest edition of the readings may be used.

Teaching Learning Process:

Lectures, Presentations, Case studies, Problems and Numericals, Test/Quiz, Term paper on a given topic

Assessment Methods:

Internal assessment 25 marks

Written exam 75 marks

Keywords:

Risk and return on shares and Bonds, Basics of valuation, Portfolio management and evaluation, Asset pricing models