

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**

**PGDM / PGDM (SM) /PGDM(M)**

**IV TRIMESTER (Batch 2017-19)**

**MID TERM EXAMINATIONS**

Course Name	<b>Equity Research</b>	Course Code	<b>FIN</b>
Max. Time	<b>1 hour</b>	Max. Marks	<b>20</b>

**Instructions:** Attempt all question. All questions carry equal marks. Be precise and specific in your answers

Q.1 Ms. Vijaya prides herself on being a long term investor who really commits and backs her investments to perform well and she sticks with them even when markets are not performing well. She sets a return objective of 20% on all her investments and until that objective isn't met, she does not sell. A doctor by profession, Vijaya is also an avid CNBC and Bloomberg viewer and reads Financial Journal daily so that she can remain informed about any major financial news. Recently her investment advisor Mr. Hilton, who recommended her to invest in a small technology company which develops applications for androids and smartphones but after some research on the web, she trusted her intuition and did not invest. After some time, the technology company was acquired by a major mobile phone manufacturer and its stock prices went up drastically.

Hilton believes that Vijaya exhibits behavioral biases that interfere with an optimal investment allocation.

A. Discuss how Vijaya's behavior reflects:

- i. Anchoring bias.
- ii. Overconfidence bias.

B. Explain how a rational economic individual in traditional finance would behave differently with respect to each bias.

Q2. Zen, is an analyst at Prime Securities. Her supervisor has asked her to develop a capital market expectations outlook, including expected return on Indian equities, In order to develop this outlook, her firm's research department has provided her with the following information:

**Indicator**

Expected dividend yield: 1.75%

Expected inflation rate: 1.5%

Real growth rate: 4%

Percentage change in number of shares outstanding: 0.5%

Percentage change in P/E: -0.75%

Using the above information calculate expected return in Indian equities.

Q3. Brian is analyzing his own personal retirement portfolio, managed by another advisor. Working with his advisor, he agreed that his portfolio should be invested with a value style. Brian has put together a table of the characteristics of his portfolio and those of the market benchmark, as shown below.

	Portfolio	Benchmark
Number of Stocks	30	700
Weighted-average market cap	\$25 billion	\$45 billion
Dividend Yield	3.2%	1.9%
P/E	13	22
P/B	1.15	2.5
EPS Growth (5 year average)	10.0%	13.0%

Sectoral **historical** growth rates

Consumer Discretionary	14.0%
Consumer Staples	13.0%
Energy	12.0%
Finance	17.0%
Utilities	16.0%
Healthcare	16.0%
Information Technology	12.0%

Country Data:

Expected growth rate in economy: 7.5%

Fiscal deficit is improving

Crude oil prices are rising

Consumer sentiments are increasing

Inflation is stable.

Currency is stable but declining.

- Decide whether the advisor has invested the portfolio according to a value or growth style. (2.5 marks)
- Based on Top down approach, explain in which sector/s the portfolio should be tilted towards. Support your decision with atleast three reasons. (2.5 marks)

Q4. Explain the indicators and their approximate values you will look for as a global analyst while performing economic analysis for investment in any country.