

EC5321: Investment & Portfolio Management

Problem set 5

1. The index of leading indicators includes all of the following.
D. changes in the sensitive materials price.
except;
2. Which of the following are not cyclical indicators?
C. Diffusion indicators.
* cyclical indicators
3. The U.S. balance of payments, the federal deficit and military contract awards are _____ of the aggregate economic activity.
D. Not categorized indicators
4. Which of the following series does not include the long-leading index?
A. Dow Jones Industrial Average.
* the long-leading index
5. Which of the following variables was considered not significant in explaining stock returns?
C. Consumption
* variables considered significant in explaining stock returns
6. The correlation of stock market returns between the U.S. and Japan is _____ and _____.
C. low, increasing
7. Which of the following is not an analytical measure used by the NBER to examine behaviour with a series?
D. Ratios among series
* analytical measure used by the NBER to examine behaviour within a series?

8. which of the following is not normally associated with cyclical indicators?

C. Business week.

* normally associated with cyclical indicators?

9. Which of the following statements concerning asset allocation is false?

C. severe currency blockages ~~may~~ should not impact global diversification selections.

10. The National Bureau of Economic Research (NBER) has derived the following indicator series in order to monitor business cycles.

C. leading, coincident, and lagging.

11. An examination of the relationship between stock prices and the economy has shown that relationship is
d. strong, and that stock prices turn before the economy does.

12. which of the following economic series are included in the NBER leading indicator group?

d. ☒ - Average weekly hour of production workers
- Average weekly initial claims for unemployment insurance.

13. The initial effect of a change in monetary policy appears in and only later in .

b. Financial markets, the aggregated economy.

14. Jensen, Johnson, and Mercer showed that the relationship between stock returns & size and price-to-book ratio holds in periods when monetary policy is.

C. Easy.

Proplem set 5

Exhibit 12.5

Use the information below for the following problem(s)

An analyst wishes to estimate the share price for Ashley Corporation. The following information is made available:

Estimated profit margin = 15% = 0.15

Total asset turnover = 2

Financial leverage = 1.2

Estimated dividend payout ratio = 75% $\frac{D}{E} = \frac{\text{dividend}}{\text{Earning}}$

Required rate of return = 14% = k .

Estimated EPS = \$2.50 Earning per share

15. Calculate the firm's ROE.

a. 36%

$$ROE = (0.15)(2)(1.2) = 0.36 = 36\%$$

$$ROE = (\text{Net profit margin}) \times (\text{Total asset turnover}) \times \text{Leverage}$$

16. The firm's sustainable growth rate is

~~10.5%~~ ~~10.5%~~

$$c. g = (1 - 0.75)(0.36) = 0.09 = 9\%$$

$$g = RR \times ROE, \text{ where } RR = 1 - \frac{D}{E}$$

17. Calculate the P/E multiple

$$e. 15 \quad \frac{P}{E} = \frac{0.75}{(0.14 - 0.09)} = 15$$

$$\times \frac{P}{E} = \left(\frac{P}{E}\right) / (k - g) \quad \text{Because } P = \frac{P}{(k - g)}, \text{ so } \frac{P}{E} = \left(\frac{P}{(k - g)}\right) / E = \left(\frac{P}{E}\right) / (k - g)$$

18. Calculate the firm's estimated share price.

$$b. 37.5 \quad p = (2.5)(15) = \$37.5$$

Question 2 : RRB, page 435 # 2.

The following questions address the use of economic analysis in the investment decision-making process.

a(i) Differentiate among leading, lagging, and coincident indicators of economic activity, and give an example of each.

- The National Bureau of Economic Research has conducted extensive analysis of leading, coincident, and lagging indicators of general economic activity.
- Business conditions Digest classifies economic indicators by their participation in the stage of the economic process & their relationship to business cycle movements.

The leading indicators include those economic time series that usually reach peaks or troughs before the corresponding points in aggregate economic activity. The group includes 10 series.

- One of the 10 leading series is common stock price, which has a median lead of nine months at peaks and four months at troughs.

- Another leading series is the money supply in constant dollars, which has a median lead of ten months at peaks and eight months at troughs.

a(2) Indicate whether the leading indicators are useful for achieving above-average investment results.

Briefly justify your conclusion.

- Leading indicators have historically been a good tool for anticipating the economy.
- Investment managers should be aware of this information and, where possible, investment decisions might reflect projected trends.
- However, these indicators are by no means infallible.
- They often generate false signals.
- A downturn in leading indicators might precede only a retardation of growth rather than a full blown recession if the downturn is shallow or brief.
- One of the most consistent leading indicators is stock price represented by the S&P 500 Stock Composite Index.
- Thus, we are dealing with indicators that are roughly coincident with the most significant determinant of stock returns and price changes.
- An efficient market should already reflect this information.
- Thus, the attainment of above-average returns using only these series is questionable.

2(b) Interest rate projections are used in investment management for a variety of purposes.

Identify three significant reasons why interest rate forecasts may be important in reaching investment conclusions.

Interest rate forecasts are usually important in investment management for the following reasons:

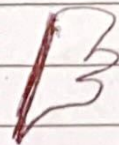
- Interest rates help determine the relative competitiveness of stocks versus bonds
- They have an effect on the stock returns from interest rate sensitive industries
- They help determine the maturity structure of bond portfolios
- They significantly affect investment in interest futures.
- They affect the discount rate used in various equity valuation models.

2(c) Assume you are a fundamental research analyst following the automobile industry for a large brokerage firm. Ide

Appointment

1) on 24/02/21 at 12:30-13:00
— the link is in email

2) CS5821 project will added to transcript



- What are the main issues with social networking
- Data collection
- How to ^{we} need to protect data.
methods to protect data.

* different types of collection.

— how do they storing their data.

→

Who is making the powerpoint?

→ types of leaking.

→ social leaking?

→ slides

→ point

* advantage & disadvantage leaking

#2a) ¹ Economic series = GDP

Economic before = stock market.

- money supply, constant money supply

b) ² (i)

b) ³ r - the required return rate

* interest rate

- used as discount value

-

c) ⁴ economic time series
economic indicators
economic data items

→ disposal

→ income GDP

→ interest rate (~~market~~ special bank loan)

- consumer

5. $1 - 40\% = 60\%$

$$\frac{40\%}{10-7} \approx$$