



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
October/November Examination 2016

Course Code: MGS721

Course Title: SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

Credit Unit: 2

Time Allowed: 2 Hours.

Instructions:

- 1. Attempt Question 1 and any other two (2) Questions.**
- 2. Question 1 is compulsory and carries 30 marks while the other Questions carry 20 marks each.**
- 3. Present all your points in a coherent and orderly manner.**

Questions

1a. What do you understand by cyclical stocks and how do cyclical stocks differ from defensive stocks?

1b. As an investment analyst differentiate clearly between convertible bonds and income bonds

1c. Dr. Oba Adenuga is to invest N1million in a bank for 4years at annual interest rate of 10%.

Required:

- i. What is the future value of the investment?
- ii. What is the interest element?

2a. What do you understand by risk and how does it relate to returns?

2b. Aside inflation, there are at least five (5) other important economic variables that can significantly affect the level of interest rates. Expatiate on these economic variables.

3a. Bonds provide investors with two kinds of income. Elucidate

3b. Kind Heart Plc is proposing to take over Hope Rising Ltd. Presently; Hope Rising Ltd is valued at price-earnings ratio of 16. It has in issue 1,000,000 at ordinary share and earned profit after tax of N200,000. You are required to determine the Earnings Per share of Hope Rising Ltd with the information available to you.

4a. Basically, there are three types of call features. Discuss succinctly.

4b. As an investment analyst, explain briefly the concept of Term Structure of Interest Rate

5a. What do you understand by preferred stocks? Discuss 3 advantages and 2 disadvantages to investors.

5b. To most financial theorists, the two assumptions of fundamental analysis seem reasonable, however, there are advocates who do not accept these assumptions. Discuss briefly the hypothesis of “Efficient Market” that appears to be the recommended antidote.