

MB 767- INVESTMENT SECURITY ANALYSIS & PORTFOLIO MANAGEMENT

Course Outline:

In every economic system, some units which may be individual or institutions are surplus-generating, others are deficit-generating. Surplus-generating units are called savers while deficit-generators are called spenders. In our country, at spectral level, households are surplus-generating while corporate and government are deficit generating. This is, however, true only at an aggregate level. You would definitely come across individual households who are deficit generating and corporate bodies who are surplus generating at some point of time. The question that arises here is: What do the surplus-generating units do with their surpluses or savings? You can now imagine that they have only two alternatives before them. They can either invest or hold their savings in the form of liquid cash. Holding liquid cash is required to meet transactionary, or precautionary or speculative needs. The surplus-generating units could invest in different forms. They could invest in physical assets viz. land and buildings, plant and machinery or in precious metals viz. gold and silver, or in financial assets viz. shares and debentures, units of the Unit Trade India, treasury bills, commercial paper etc. A capital market is a market for securities (both debt and equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is lent for periods longer than a year, as the raising of short-term funds takes place on other markets (e.g., the money market)

Course Objectives:

This course aims to provide a basic knowledge of the theories and practices of modern portfolio choice and investment decision. The course will acquaint students with some fundamental concepts such as risk diversification, portfolio selection, capital asset pricing model etc. The students are also expected to be able to apply certain techniques to evaluate and analyse risk and return characteristics of securities such as individual stocks, mutual funds, and government and corporate bonds.

Pedagogy:

This course is delivered through a combination of lectures, seminars and group work on case studies, exercises and problems.

Evaluation:

Assessment is through stock market game (30%), Assignments (10%), Presentations (10%) and Written Examination (50%).

No. of Credits:

3 (3 Lectures/ week)

Attendance : 75% required to clear the paper

Unit 1: The Investment Environment

Introduction: Security analysis is a pre-requisite for making investments. In the present day financial markets, investment has become complicated. One makes investments for a return higher than what he can get by keeping the money in a commercial or cooperative bank or even in an investment bank. In the finance field, it is a common knowledge that money or finance is scarce and that investors try to maximize their return. But the finance theory states that the return is higher, if the risk is also higher. Return and risk go together and they have a trade off. Most of the investments are risky to some degree. The art of investment is to see that the return is maximized with the minimum of risk, which is inherent in investments.

Topic	No. of hours
The organization and mechanics of securities markets - Various securities	2
Characteristics - Objective of the security analysis - Frictions of an organized security market	2
Mechanics of security trading -Sources of Investment Information.	2
Total	06

Learning Outcomes:

- i. To describe and to analyze the investment environment, different types of investment vehicles.
- ii. To understand and to explain the logic of investment process and the contents of its' each stage.
- iii. To use the quantitative methods for investment decision making.
- iv. Describe meaning and objectives of portfolio management and financial assets and markets.

Unit 2: Security analysis – (Nonfinancial)

Introduction: When a private companies is sold, its value is ultimately determined by the highest and best price a buyer is willing to pay, but most private companies never sell 100 percent of the company to an external buyer. They either shut down and distribute assets to their owners, sell one owner's stake to another, bring in outside investors, or establish and "sell" to an employee stock option plan. With these options, understanding the nuances between market and intrinsic value becomes important.

Topic	No. of hours
Internal value and market value of various securities	2
Internal value and market value of firm	2
Economic analysis	2
Industry analysis	2
Total	08

Learning Outcomes:

- i. Discuss the concept of Economic Analysis.
- ii. Explain Current State of Economy and Indicators.
- iii. Describe tools for economic analysis.
- iv. Distinguish between Internal value and market value of securities and firms.
- v. Explain the concept of Industry Analysis
- vi. Discuss Standard Industry Classification
- vii. Analyze Industry Growth Cycle
- viii. Understand tools for Industry Analysis

Unit 3: Security analysis – (financial)

Introduction: In the company analysis the investment analyst collect all the information related to the company and evaluates the present and future value of the stock. In this analysis, all the factors affecting the earnings of a particular company are considered. The risk and return associated with the purchase of a stock is analyzed to take a better investment decisions. The valuation process depends upon the investor ability to elicit information from the relationship.

Topic	No. of hours
Company analysis	2
Financial Statement analysis	2
projecting earnings under stable as well as dynamic conditions and risk and return factors	2
Total	06

Learning Outcome:

- i. Explain concept of company analysis
- ii. Understand the concept of earnings projection both under stable and dynamic conditions
- iii. Explain forecasting earning per share
- iv. Describe traditional and modern methods of forecasting EPS
- v. Explain tools for Company Analysis and the concept of Financial Statement Analysis
- vi. Explain tools for Financial Statement Analysis
- vii. Describe the factors affecting risk and return.

Unit 4: Portfolio Analysis

Introduction: Portfolio means a collection or combination of financial assets (or securities) such as shares, debentures and government securities. And it is not unusual to define a portfolio in such terms since the institutional portfolios (insurance companies, pension funds, mutual funds, banks, etc.) do, in fact, consist of such assets. However, in a more general sense the term ‘portfolio’ may be used synonymously with the expression ‘collection of assets’, which can even include physical assets (gold, silver, real estate, etc.). What is to be borne in mind is that, in the portfolio context, assets are held for ‘investment’ purposes and not for ‘consumption’ purposes.

Topic	No. of hours
Portfolio theory - Portfolio criteria Efficient Set Portfolio selection and diversification	2
The shape of the risk function- CAPM Model	2
Random Walk - Martingale Model- Technical analysis	2

Total	06
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Learning Outcome:

- i. Explain inputs to portfolio analysis
- ii. Discuss portfolio risk and return
- iii. Describe portfolio analysis and selection
- iv. Understand Markowitz Diversification and Classification of Risks
- v. Explain traditional portfolio analysis

Unit 5: Portfolio Management

Introduction: Building a successful investment plan for the twenty-first century may require a fundamental change in the way we think about investing. For instance, while taking less risk, a portfolio comprised of only 60% equities that outperforms the Sensex by a wide margin should certainly be considered a superior portfolio. Furthermore, new advances in investment and finance offer us solutions both simpler and more elegant (and very, very different) than what we grew up with. We have been conditioned to think of market timing, stock selection, and manager performance as the keys to success. Because these beliefs are deeply ingrained, even superior investment strategies, like Strategic Global Asset Allocation, take a little getting used to.

Topic	No. of hours
Portfolio objective - Size of portfolio	2
Portfolio selection - Basis and Readjustment	2
Timings of disinvestments	2
Portfolio performance	2
Total	08

Learning Outcome:

- i. Explain Risk-Reward Concept and Discuss Investment Risk Pyramid
- ii. Explain specification of investment objectives and constraints
- iii. Describe portfolio strategy formulation and Discuss asset allocation
- iv. Define asset classes and Explain diversification
- v. Discuss risk reduction in the stock portion of a portfolio
- vi. Understand the selection of asset mix and security selection
- vii. Describe portfolio execution

References:

1. Investment management – Security analysis and portfolio management – V.K.Bhalla – Sultan chand- 15th edition 2009.
2. Fischer, D.E. & Jordan R.J., “Security Analysis & Portfolio Management”, 5th Ed.,2005,PHI.