Paper/Subject Code: /Wealth Management

Duration: 2 ½ Hrs.

SYBAF - ANSWER KEY

Q.1. A. State whether following statements are True or False (any Eight)   [08]
1. TRUE
2. TRUE
3. TRUE
4. TRUE
5. TRUE
6. FALSE
7. FALSE
8. FALSE
9. FALSE
10. FALSE

  B. Match the following: (any Seven)   [07]

1.	Modern portfolio theory	i.	Harry Morkowitz
2.	Data gathering	ii.	First step in Wealth Management
3.	NISM	iii.	Wealth Management Certification
4.	Bank deposits	iv.	Current account
5.	Simple Interest	v.	P x N x R
6.	Portfolio	vi.	Combination of various assets
7.	Depository	vii.	Holds security in Demat A/c
8.	Fifth letter of PAN	viii.	Letter of Surname
9.	KYC	ix.	Know Your Customer
10.	Portfolio construction	x.	Optimum mix of securities

Q.2. A. What are the components of Wealth Management?   [08]
Ans: Meaning of wealth management
Components of wealth management
- Cash flow
- Investment Management
- Tax planning and tax deferred investment
- Insurance Assessemt
- Estate planning
- Business succession planning
- Retirement planning
- Legal services

B.   Explain the need of Wealth Management?   [07]
Ans: Need for wealth management
- Customization
- Trusted wealth
- Research and product knowledge
- Transparency in change
- Access to information and portfolio
- Accounting and taxation
- Regulation and guidelines

OR

C.   Mr. Ram wants to invest in Company A or Company B. The return on Stock of   [10]
Company A and B and Probability are given below:
Ans:

Calculation of ERR

State of Economy	Pi	Ri	$\bar{Ri}$
Boom	0.25	25	6.25
Normal	0.50	35	17.50
Recession	0.25	32	8
		Total	31.75

Calculation of Standard Deviation (Fund A)

State of Economy	Pi	Ri	$\bar{Ri}$	$Ri-\bar{Ri}$	$(Ri-\bar{Ri})^2$	$Pi\,(Ri-\bar{Ri})^2$
Boom	0.25	25	6.25	25-31.75= -6.75	45.56	11.39
Normal	0.50	35	17.50	35-17.50=3.25	10.56	5.28
Recession	0.25	32	8	32-31.75=0.25	0.06	0.015
			31.75			16.68

Calculation of ERR B

State of Economy	Pi	Ri	$\bar{Ri}$
Boom	0.25	30	7.5
Normal	0.50	40	20.00
Recession	0.25	30	7.50
		Total	35

Calculation of Standard Deviation (Fund A)

State of Economy	Pi	Ri	$\bar{R}i$	Ri-$\bar{R}i$	$(Ri-\bar{R}i)^2$	Pi $(Ri-\bar{R}i)^2$
Boom	0.25	30	7.5	30-35= -5	25	6.25
Normal	0.50	40	20.00	40-35= 5	25	12.50
Recession	0.25	30	7.50	30-35= -5	25	6.25
			35			25

(S.D) $\sigma = \sqrt{\sum Pi\ (Ri - \bar{R}i)^2}$

$= \sqrt{25}$

$= 5$

D   Calculate at what Simple Interest Rate will Rs. 1200 earn Rs. 192 in 2 years?   [05]
[05]

ANS :

I=P X n X i

192=1200 x 2 x i

192=2400i

$\dfrac{192}{2400}$ = i

0.08 = i

8=i

Q.3.   A.   [15]

Ans: Calculation of Beta A ltd

Year	Return R_A	Return R_m	$R_A - \bar{R}_A$ (1)	$R_m - \bar{R}_m$ (2)	1×2	2^2
1	20	20	-1.125	-0.375	0.4219	0.140
2	18	17	-3.125	-3.375	10.5469	11.390
3	16	14	-5.125	-6.375	32.6719	40.640
4	21	20	-0.125	-0.375	0.0469	0.140
5	24	24	2.875	3.625	10.4219	13.140
6	28	27	6.875	6.625	45.5469	43.890
7	22	21	0.875	0.625	0.5469	0.390
8	20	20	-1.125	-0.375	0.4219	0.140
	169	163			100.625	109.87

$R_A = \dfrac{\Sigma R_A}{n} = \dfrac{169}{8} = 21.125$

$$\bar{R}_m = \frac{\Sigma R_m}{n} = \frac{163}{8} = 20.375$$

$$\beta = \frac{\dfrac{\Sigma (R_A - \bar{R}_A)(R_m - \bar{R}_m)}{n-1}}{\dfrac{\Sigma (R_m - \bar{R}_m)^2}{n-1}} = \frac{\dfrac{100.625}{8-1}}{\dfrac{109.875}{8-1}}$$

$$= \frac{100.625}{7} \times \frac{7}{109.875}$$

$$= \frac{100.625}{109.875}$$

$$= 0.9158$$

Beta of A is 0.915

Sr.	Return R_a	Return R_m	$R_a - \bar{R}_a$ (1)	$R_m - \bar{R}_m$ (2)	1 * 1	2²
1	19	20	-0.125	-0.375	0.0469	0.1406
2	16	17	-3.125	-3.375	10.5469	11.3906
3	12	14	-7.125	-6.375	45.421Y	40.640X
4	19	20	-0.125	-0.375	0.0469	0.1406
5	23	24	3.875	3.625	14.0469	13.1406
6	25	27	5.875	6.625	38.9129	43.8906
7	20	21	0.875	0.625	0.5469	0.3906
8	19	20	-0.125	-0.375	0.0469	0.1406
	153	163			109.616	109.87

$$\bar{R}_B = \frac{\Sigma R_B}{n} = \frac{153}{8} = 19.125$$

$$\bar{R}_m = \frac{\Sigma R_m}{n} = \frac{163}{8} = 20.375$$

$$\beta = \frac{\dfrac{\Sigma (R_B - \bar{R}_B)(R_m - \bar{R}_m)}{n-1}}{\dfrac{\Sigma (R_m - \bar{R}_m)^2}{n-1}}$$

$$= \frac{\dfrac{109.616}{8-1}}{\dfrac{109.875}{8-1}}$$

$$= \frac{109.616}{7} \times \frac{7}{109.875}$$

$$= \frac{109.616}{109.875}$$

$$= 0.9977$$

Beta of B 0.977

B.   State the objectives of Portfolio Management.   [08]
Ans) Objective of portfolio
- Stability of income
- Cap[ital. Growth
- Liquidity
- Safety
- Tax Incentive

C.   Give a note on Principles of Portfolio Construction.   [07]
Ans:- Meaning of Portfolio
Principles of Construction
- Asset allocation
- Security selection
- Portfolio structure

Q.4.   A.   a) Calculation of YTM of Bond 'P':   [10]

$$YTM = \frac{I + F\text{-}P / n}{F + P / 2}$$

$$= \frac{15 + 100 - 70 / 9}{170 / 2} = 15 + 3.34 / 85 = 18.34 / 85 = 21.57\%$$

b) Calculation of YTM of Bond 'Q':

$$= \frac{12 + 100 - 40 / 7}{140/2} = 12 + 8.57 / 70 = 20.57 / 70 = 29.38\% \text{ (approx.)}$$

B. $V = \sum t = 1 + \dfrac{Ct}{(1 + Kt)}$ [05]

$$V = \frac{300}{(1 + 0.08)^1} + \frac{350}{(1 + 0.08)^2} + \frac{400}{(1 + 0.08)^3} + \frac{450}{(1 + 0.08)^4} + \frac{500}{(1 + 0.08)^5}$$

$V = 277.77 + 300.6 + 317.53 + 330.78 + 340.29 = 1556.43$

C.   Explain briefly the PAN card application process.   [08]
Ans: Online Application Process
Offline Application Process
Steps to procure Duplicate PAN card

| | D. | Give a note on types of investors.
Ans: Retail Investors, QIB's, Non Institutional investors, FII's. | [07] |

Q.5. A. Give a note on Dematerialisation and Rematerialisation of Securities. [08]
                Ans: Meaning and Procedure

      B. Explain documentation of Financial Advisor. [07]
                Ans: Cah Flow STtaement
                      Letter of instruction
                      Beneficiary designations
                      Power of attorney
                      Tax Returns Documents Etc.

<div align="center">OR</div>

Q.5. Short Notes: [Any Three] [15]
    a. Primary market
       Ans: Meaning and Types
    b. Discounted Cash flow
       Ans: Meaning, Formula and Procedure of calculation
    c. Wealth plan
       Ans: Meaning and Need
    d. Account opening process of NRI's
       Ans: Downloading the form, Documents Needed etc.
    e. Correlation
       Ans: Meaning, Formula and Procedure of Calculation