

EXAMINATION AND EVALUATION DIVISION
DEPARTMENT OF POLYTECHNIC EDUCATION
(MINISTRY OF HIGHER EDUCATION)

COMMERCE DEPARTMENT

FINAL EXAMINATION
DECEMBER 2011 SESSION

P4122: INVESTMENT MANAGEMENT

DATE : 2 MAY 2012 (WEDNESDAY)
DURATION : 2 HOURS (8.30 AM – 10.30 AM)

This paper consists of **FOUR (4)** pages including the front page.

Essay (4 questions – answer ALL)

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INSTRUCTED BY THE CHIEF INVIGILATOR

INSTRUCTION :

This paper consists of **FOUR (4)** essay questions. Answer **ALL** questions.

QUESTION 1

Risk is defined as the quantifiable likelihood of loss or less than expected returns. Calculate the risks and returns of investments made.

- a. Jason purchased ten shares of Bikers Inds. BHD valued at RM 113 each and is thinking about selling them to his partners at RM105 each. Calculate the capital gains that Jason is expected to get. (1.5 marks)

- b. Bakari intends to involve in Afdiwe International BHD shares after he finds that it promises 50% probability and 75% return, 25% probability and 25% return, and 15% probability 5% return. Calculate the expected return that Bakari could get based on the probability information gathered. (1.5 marks)

- c. View To One Limited invests in Banding Industries BHD for four years since 2006 and gets 15%, -8%, 20% and 10% in return. Calculate the annual rate of return (annual arithmetic return) and annual compound rate of return (annual geometric return) for this investment. (6 marks)

- d. Kieran intends to invest RM500,000 but has difficulty to identify which company would be best for him to allocate the sum of money that he has.
 - i. Calculate standard deviation of each company using rate of return available. (14 marks)

 - ii. Give your opinion on which company Kieran should invest based on the findings. (2 marks)

| | 7 years Rate Of Return | | | | | | |
|-----------|------------------------|------|------|------|------|------|------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Company A | +11% | +15% | +8% | +10% | +13% | +9% | +8% |
| Company B | +10.5% | +12% | +12% | +10% | +12% | +8% | +6% |

QUESTION 2

- a) The SCK Sdn. Bhd. is paying a dividend of RM0.88 to its shareholders, and the dividend is expected to grow at a constant rate of 5%. Based on investor analysts forecast, the Required Rate of Return to shareholders is 10%. Do calculate the intrinsic value of the stock. (4 marks)
- b) The MLM Sdn. Bhd. has just paid a dividend of RM 1.45 to its shareholders. The company investor advisor expected the company dividend will grow up 10% for the first 3 years. After the fourth year, the dividend will grow at a rate of 5% until indefinite period. If an investor required rate of return at 9%, calculate the intrinsic value of the stock? (9 marks)
- c) Why companies want to be listed on the stock exchange? Explain. (6 marks)
- d) Explain the right issue and the bonus issue of the common stock. (6 marks)

QUESTION 3

- a) What is *warrant*? Explain the THREE (3) factors that determine the premium of warrant? (12 marks)
- b) Define preferred shares and list any TWO (2) advantages and disadvantages of investing in preferred shares. (6 marks)
- c) What is the main difference between :
- i. Forward Contract and Future Contract (4 marks)
 - ii. American Style Option and European Style Option (3 marks)

QUESTION 4

- a) Define the meaning of foreign exchange. (3 marks)
- b) Explain briefly the roles of the bodies below which supervise and operate the securities industry.
- i) Security Commission (3 marks)
 - ii) Malaysia Stock Exchange (3 marks)
 - iii) Central Depository System (CDS) (4 marks)
- c) Explain the importance of Malaysia Stock Exchange towards the development of the economy, the growth of public listed companies and to the investors. (12 marks)