

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: PRINCIPLES OF INVESTMENTS (IOBM – D209)**

**Date: Sunday, 12th May 2019**

**Time Allocated: 13:30 – 16:30 pm**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks. Answer **ALL** questions.

3 Section B consists of 3 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer sheets without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

The following table shows the composition of an investor`s portfolio

Rate of Return (%) Proportion (%)

8.25 36

10.50 15

13.92 24

15.45 25

1. Explain the importance of portfolio diversification*. (2 marks)*
2. When building up a portfolio, what are the **two** factors that should be considered during asset selection process? *(4 marks)*

1. Calculate the expected return of the above portfolio. *(5 marks)*
2. If one of the asset in the above portfolio is a preferred stock, give any **four** of the features that are associated with this stock*. (4 marks)*

**(Total 15 marks)**

**QUESTION 2**

Below are statistics taken from Malawi Stock Exchange daily stock news of 21st December 2018;

21.12.2018 20.12.2018

Malawi All Share Index 28,976.74 28,983.53

Domestic Share Index 22,311.89 21,318.07

Foreign Share Index 5,265.12 5,265.12

Details for stock **R**

Shares in issue 713,444,391

Profit After tax 16,449,000,000

Price per share K200.00

1. Mention **four** market indices that are of significance to the investing public.

*(4 marks)*

1. Explain **two** difference between National stock exchanges and Regional stock exchanges. *(4 marks)*
2. From the index statistics above, explain the information that an investor is likely to get. *(2 marks)*
3. Calculate the P/ E ratio. *(5 marks)*

**(Total 15 marks)**

**QUESTION 3**

A pension fund invested in a five-year term security which is to give a yearly coupon cash flow of K15, 000.00 payable at the end of each year. The coupon cash flows are tied up in a reinvestment arrangement upon receipt at 12% per annum.

1. Advise the pension trustees the current value of future coupon cash flows by use of timelines method. *(10 marks)*
2. What will be the current value if coupon cash flows were received at the beginning of the year, use the formula method.  *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Discuss an efficient frontier, detailing the information that an investor is likely to obtain from it. *(10 marks)*
2. Describe a Capital Market Line.  *(5 marks)* **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** from this section

**QUESTION 5**

Figures below are taken from financial statements of DM Corporation limited for the year ending 31st December 2018

|  |  |
| --- | --- |
|  | MK'000 |
| Cash | 180 |
| Fixed deposit | 1,420 |
| Inventory | 1,800 |
| Trade debtors | 1,300 |
| Bills payable | 270 |
| Creditors | 500 |
| Tax payable | 750 |
| Profit before tax | 2,100 |
| Net profit | 1,490 |

1. Define ratio analysis. *(2 marks)*
2. Describe the absolute liquidity ratio.  *(5 marks)*
3. Based on figures above, calculate absolute liquidity ratio.  *(3 marks)*
4. Explain five adjustments that must be made to profit if return on capital employed ratio is to be meaningfully computed. *(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Discuss Efficient Market Hypothesis and two facts that challenge its rationale.

*(10 marks)*

1. The fund is comprised of various asset classes and the mean return is 12.125 %.

Calculate its coefficient variance based on the following details; (use six decimal places in your computations)

**Rate of Return (%) Probability (%)**

8.50 35

11.00 10

13.50 30

16.00 25

*(10 marks)*

**(Total 20 marks)**

**QUESTION 7**

As a way of raising funds for business expansion and financing public works, corporate and Government issue bonds. These bonds can be listed on the stock exchanges.

1. Briefly explain the following,
2. The **two** differences between bond clean price and bond dirty price.

*(4 marks)*

1. The relative price approach of valuing a bond*. (6 marks)*
2. Discuss how a bond issue can be structured so as to attract the attention of potential investors. *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Explain in detail the justification in calculating investors return by use of formula;

R =rf +Bi (km –rf) *(16 marks)*

1. Compute the beta of a security given a required rate of 14.1%, ruling Treasury bill rate of 5% for similar term of maturity and expected market rate of 12 %.

*(4 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**