

# Roots Institute of Financial Markets

## RIFM



**Practice Book**

**Investment Analysis and Portfolio Management Module**



Roots Institute of Financial Markets  
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.  
Ph.99961-55000, 0180-2663049 email: info@rifm.in  
Web: www.rifm.in

# Forward

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Roots Institute of Financial Markets is an advanced research institute Promoted by Mrs. Deep Shikha CFP<sup>CM</sup>. RIFM specializes in Financial Market Education and Services. RIFM is introducing preparatory classes and study material for Stock Market Courses of NSE , NISM and CFP certification. RIFM train personals like FMM Students, Dealers/Arbitrageurs, and Financial market Traders, Marketing personals, Research Analysts and Managers.

We are constantly engaged in providing a unique educational solution through continuous innovation.

Wish you Luck.....

Faculty and content team, RIFM



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## Our Team

### **Deep Shikha Malhotra CFP<sup>CM</sup>**

- M.Com., B.Ed.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- IRDA Certified for General Insurance
- PG Diploma in Human Resource Management

### **CA. Ravi Malhotra**

- B.Com.
- FCA
- DISA (ICA)
- CERTIFIED FINANCIAL PLANNER<sup>CM</sup>

### **Vipin Sehgal CFP<sup>CM</sup>**

- B.Com.
- NCFM Diploma in Capital Market (Dealers) Module
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

### **Neeraj Nagpal CFP<sup>CM</sup>**

- B.Com.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

#### NCFM Certification In:

- Capital Market (Dealers) Module
- Derivatives Market (Dealers) Module
- Commodities Market Module

### **Kavita Malhotra**

- M.Com. Previous (10th Rank in Kurukshetra University)
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- Certification in all Modules of CFP<sup>CM</sup> Curriculum (FPSB India)



# **Investment Analysis and Portfolio Management**

## **Module**

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# Chapter 1

## Objective of Investment Decisions

Q.1 Investments can be made into financial assets like \_\_\_\_\_

- A. Stocks
- B. Bonds
- C. Houses
- D. All the above

Q.2 The underlying objective of portfolio management is to create a balance between the trade-off of returns and risk across multiple assets Classes.

- A. True
- B. False

Q.3 \_\_\_\_\_ is the art of managing the expected return requirement for the Corresponding risk tolerance.

- A. Portfolio Management
- B. Asset Management
- C. Risk Management
- D. None of the above

Q.4 Portfolio manager's objective is to maximize the return subject to the risk-tolerance level or to achieve a pre-specified level of return with Minimum risk.

- A. True
- B. False

Q.5 Types of investors depends on \_\_\_\_\_

- A. On their investment styles
- B. Mandates
- C. Horizons
- D. All of the above

Q.6 Risk appetites and return requirements are same across investor classes

- A. True
- B. False

Q.7 Individuals averse to risk in their portfolio. They would like to invest in investments like

- A. Government Securities
- B. Bank Deposits
- C. Both of the above
- D. None of the above

Q.8 Individuals who are risk takers who would like to invest and/or speculate in the equity markets



- A. True
- B. False

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Question	Answer	Question	Answer	Question	Answer	Question	Answer
1	D	16	C	31	C	46	D
2	A	17	A	32	A	47	D
3	A	18	A	33	A	48	D
4	A	19	C	34	B	49	D
5	D	20	B	35	C	50	D
6	B	21	C	36	B	51	C
7	C	22	D	37	A	52	D
8	A	23	A	38	A	53	D
9	A	24	B	39	C		
10	B	25	C	40	A		
11	C	26	A	41	B		
12	B	27	B	42	A		
13	C	28	D	43	B		
14	B	29	A	44	C		
15	C	30	B	45	C		



## Chapter 2 Financial Markets

- Q.9 New stocks/bonds are sold by the issuer to the public in the \_\_\_\_\_
- A. Derivative market
  - B. Secondary Market
  - C. Money Market
  - D. Primary Market
- Q.10 When a particular security is offered to the public for the first time, it is called an Initial Public Offering (IPO).
- A. True
  - B. False
- Q.11 When an issuer wants to issue more securities of a category that is already in existence in the market it is referred to as IPO
- A. True
  - B. False
- Q.12 It is generally difficult to price a security during a Follow-up Offering since the market price of the security is not available before the company comes up with the offer.
- A. True
  - B. False
- Q.13 In the case of an IPO it is very easy to price the offer since there is prevailing market for the security.
- A. True
  - B. False
- Q.14 If the issue is \_\_\_\_\_ the company stands to lose notionally since the securities will be sold at a price lower than its intrinsic value
- A. Overpriced
  - B. Underpriced
  - C. Equal price
  - D. None
- Q.15 The \_\_\_\_\_ also known as 'aftermarket.'
- A. Secondary market
  - B. Primary Market
  - C. Capital Market
  - D. Derivative Market
- Q.70 The default risk is \_\_\_\_\_ for corporate bonds; they are usually issued at a \_\_\_\_\_ discount than equivalent Government bonds.
- A. Higher, Higher
  - B. Less, Less
  - C. Less, Higher
  - D. Higher, Less
- Q.71 Corporate bonds are classified as \_\_\_\_\_
- A. Secured bonds
  - B. Unsecured bonds
  - C. Both of the above
  - D. None of the above





Q.72 \_\_\_\_\_ debentures have a lower priority than bonds in claim over a firm' assets.

- A. Secured
- B. Unsecured
- C. Subordinated
- D. None of the above

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Question	Answer	Question	Answer	Question	Answer	Question	Answer
1	C	26	B	51	A	76	B
2	D	27	C	52	A	77	B
3	B	28	B	53	B	78	A
4	B	29	B	54	D	79	B
5	B	30	B	55	C	80	A
6	C	31	A	56	C	81	A
7	A	32	A	57	B	82	A
8	B	33	A	58	B	83	B
9	D	34	B	59	C	84	D
10	A	35	B	60	A	85	B
11	B	36	B	61	D	86	A
12	B	37	B	62	C	87	B
13	B	38	B	63	D	88	B
14	B	39	D	64	A	89	A
15	A	40	B	65	B	90	B
16	A	41	B	66	C		
17	C	42	C	67	D		
18	A	43	A	68	C		
19	B	44	A	69	A		
20	C	45	A	70	A		
21	B	46	D	71	C		
22	A	47	B	72	C		
23	B	48	D	73	C		
24	A	49	B	74	A		
25	A	50	A	75	A		



## CHAPTER 5

### Financial Analysis and Valuation

3. Operating expenses include the costs of these goods and services and the costs incurred during the manufacture.

- A. True
- B. False

4.A \_\_\_\_\_ provides an account of the total revenue generated by a firm during a period (usually a financial year or a quarter), the expenses involved and the money earned.

- A. Cash flow statement
- B. Profit and loss statement
- C. Both
- D. None

5. Balance sheet of a company is a snapshot of \_\_\_\_\_

- A. Cash flow of the company
- B. The sources and applications of funds of the company
- C. Both
- D. None

6. \_\_\_\_\_ include net income generation adjusted for changes in working capital and non-core accruals.

- A. Income statement
- B. Cash flow from operations
- C. Cash flow in financial activities
- D. Cash flow from investing activities

7. \_\_\_\_\_ are net result of the firm's borrowings, and payments during the period

- A. Income statement
- B. Cash flow from operations
- C. Cash flow in financial activities
- D. Cash flow from investing activities

8. A firm's \_\_\_\_\_ comprise fixed, and current assets, sometimes into other firms and generally represent negative cash flows.

- A. Income statement
- B. Cash flow from operations
- C. Cash flow in financial activities
- D. Cash flow from investing activities



35. Retention ratio is the opposite of dividend payout ratio and measures the percentage of net income not paid to the shareholders in the form of dividends.

- A. True
- B. False

36. Retention Ratio is

- A.  $DPS / EPS$
- B.  $EPS / DPS$
- C.  $1 - DPS$
- D.  $1 - EPS$

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Question	Answer	Question	Answer	Question	Answer	Question	Answer
1	C	17	A	33	C	49	C
2	C	18	D	34	B	50	C
3	A	19	A	35	A	51	B
4	A	20	A	36	D	52	C
5	B	21	A	37	A	53	C
6	B	22	A	38	B	54	B
7	C	23	C	39	C	55	B
8	D	24	A	40	D	56	A
9	B	25	C	41	C	57	D
10	A	26	A	42	C	58	B
11	C	27	A	43	A	59	D
12	D	28	B	44	B	60	D
13	B	29	B	45	C	61	B
14	B	30	A	46	A		
15	A	31	B	47	C		
16	C	32	D	48	A		



## CHAPTER 7

### Valuation of Derivatives

1. The underlying asset for a derivative contract can be \_\_\_\_\_.
  - A. Equity
  - B. Interest rate
  - C. Commodities
  - D. Any of the above
  
2. Which of the following cannot be an underlying asset for a financial derivative contract?
  - A. Equity Index
  - B. Commodities
  - C. Interest Rate
  - D. Foreign Exchange
  
3. Which of the following cannot be an underlying asset for a financial derivative contract?
  - A. Equity index
  - B. Interest rate
  - C. Commodities
  - D. Foreign
  
4. In a \_\_\_\_\_ contract the process of trading, clearing and settlement does not happen instantaneously.
  - A. Spot
  - B. Forward
  - C. Both of the above
  - D. None of the above
  
5. Which of the following are derivatives?
  - A. Stocks
  - B. Bonds
  - C. Forward Rate Agreements
  - D. All of the above
  
6. Futures and forwards are similar in the following respect \_\_\_\_\_.
  - A. settlement of contract takes place in the future
  - B. they have settlement guarantee
  - C. positions are marked-to-market everyday
  - D. contracts are custom designed
  
7. Two persons agree to exchange 100 gms of gold three months later at Rs. 400/gm. This is an example of a
  - A. Future Contract
  - B. Forward Contract
  - C. Spot Contract
  - D. None of the above
  
8. A \_\_\_\_ contract is an agreement to buy or sale an asset on a specific date for specified price.
  - A. Option



- B. Forward
- C. Future
- D. Swaption

9. A forward contract is an agreement\_\_\_\_\_
- A. To buy or sell an asset of a certain time in the future at a certain price
  - B. To buy or sell asset on a specific date for a specified price
  - A. A is correct
  - B. B is correct
  - C. Both are correct
  - D. Both are incorrect

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Question	Answer	Question	Answer	Question	Answer	Question	Answer
1	D	11	A	21	B	31	C
2	B	12	D	22	A	32	A
3	C	13	C	23	B	33	B
4	B	14	A	24	A	34	B
5	C	15	A	25	A	35	A
6	A	16	C	26	C	36	B
7	B	17	C	27	B	37	B
8	B	18	D	28	B	38	B
9	B	19	D	29	A	39	B
10	A	20	B	30	B	40	C

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**MODEL TEST**  
**INVESTMENT ANALYSIS AND PORTFOLIO**  
**MANAGEMENT MODULE**

1. \_\_\_\_\_ would mean that no investor would be able to outperform the market with trading strategies based on publicly available information.
- A. Semi strong form efficiency
  - B. Weak-form efficiency
  - C. Strong form efficiency
2. A company's \_\_\_\_\_ provide the most accurate information to its management and shareholders about its operations.
- A. Advertisements
  - B. Financial statements
  - C. Products
  - D. Vision statement
3. \_\_\_\_\_ Fund managers try to replicate the performance of a benchmark index, by replicating the weights of its constituent stocks.
- A. Active
  - B. Passive
4. Unlike term insurance, \_\_\_\_\_ ensure a return of capital to the policyholder on maturity, along with the death benefits.
- A. High premium or low premium policies
  - B. Fixed or variable policies
  - C. Assurance or endowment policies
  - D. Growth or value policies
5. Gross Profit Margin = Gross Profit / Net Sales
- A. FALSE
  - B. TRUE
6. Security of ABC Ltd. trades in the spot market at Rs. 595. Money can be invested at 10% per annum. The fair value of a one-month futures contract on ABC Ltd. is (using continuously compounded method): [2 Marks]
- A. 630.05
  - B. 620.05
  - C. 600.05



D. 610.05

7. Accounts payable appears in the Balance Sheet of companies.
- A. TRUE
  - B. FALSE
8. A portfolio comprises of two stocks A and B. Stock A gives a return of 8% and stock B gives a return of 7%. Stock A has a weight of 60% in the portfolio. What is the portfolio return?
- A. 9%
  - B. 11%
  - C. 10%
  - D. 8%



<b>Answer Sheet Model Test Paper</b>			
Question.	Answer	Question	Answer
1	A	31	D
2	B	32	C
3	B	33	A
4	C	34	A
5	B	35	A
6	C	36	B
7	A	37	B
8	D	38	C
9	B	39	B
10	A	40	C
11	B	41	A
12	B	42	D
13	B	43	B
14	C	44	B
15	A	45	C
16	D	46	A
17	A	47	B
18	D	48	D
19	A	49	B
20	B	50	C
21	A	51	A
22	B	52	A
23	D	53	A
24	A	54	C
25	A	55	A
26	D	56	C
27	B	57	B
28	A	58	C
29	D	59	D
30	D	60	D



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