Paper Code – MB 304 – F - I

Discipline Specific Elective -Finance

INVESTMENT MANAGEMENT

Synopsis

Unit – I: Introduction to Investments:

This unit provides a comprehensive exploration of investment concepts and decision-making processes, aiming to equip students with the knowledge and skills essential for effective portfolio management.

The journey begins with a distinction between Real vs. Financial assets, offering insights into the characteristics and distinctions between tangible and intangible investments. The Investment Decision Process is then dissected, outlining the systematic steps involved in making informed investment choices.

The importance of information in the investment realm is highlighted, and the unit explores Sources of Investment Information, empowering students to access and analyze data critical for sound investment decisions. A crucial distinction is drawn between Investment and Speculation, shedding light on the differences in approach and risk between these two financial activities.

Factors influencing Investment Decisions are scrutinized, including Liquidity, Return, Risk, Maturity, Safety, Tax, and Inflation. These considerations serve as crucial benchmarks in evaluating the suitability of investment options. The concept and measurement of Return are discussed, distinguishing between Realized and Expected Return, as well as Ex-ante and Ex-post Returns.

Risk emerges as a central theme, with an exploration of its sources, types, and measurement techniques such as Range, Standard Deviation, and Coefficient of Variation. The Risk-Return Trade-off is elucidated, introducing the concepts of Risk Premium and Risk Aversion.

Approaches to Investment Analysis are examined, encompassing Fundamental Analysis, which delves into the financial health of companies, and Technical Analysis, incorporating numerical tools such as RSI, Oscillators, and Moving Averages for security analysis. The unit concludes with an exploration of the Efficient Market Hypothesis, providing insights into market efficiency and the implications for investment strategies.

This comprehensive unit equips students with a robust foundation in investment principles, enabling them to navigate the complex landscape of financial markets and make informed decisions in portfolio management.

Unit – II: Portfolio Theory:

This unit delves into the sophisticated realm of portfolio management and capital market theory, elucidating key concepts and theories that guide investment decision-making.

The concept of a Portfolio takes center stage, introducing the idea of diversifying investments across various assets to optimize returns and manage risk effectively. Portfolio Return and Risk are explored as integral components, emphasizing the need for a balanced approach in constructing investment portfolios.

The cornerstone of modern portfolio theory, Harry Markowitz's Portfolio Theory, is thoroughly examined. This groundbreaking theory emphasizes the importance of diversification and demonstrates how the correlation between assets influences the overall risk and return of a portfolio. The unit details the construction of the Minimum Risk Portfolio, showcasing how optimal combinations of assets can be selected to achieve the lowest possible risk for a given level of return.

The Single-Index Model is introduced, providing a simplified yet powerful framework for assessing the risk and return of a portfolio based on a single market index.

Capital Market Theory takes the spotlight, starting with the introduction of the Risk-Free Asset. The Capital Market Line is explored, illustrating the relationship between risk and return in a portfolio that includes a risk-free asset. The Separation Theorem, a key proposition in capital market theory, is discussed, highlighting the concept that investors can separate their investment decisions into two components: one involving the risk-free rate and the other involving their risk tolerance.

This unit provides a deep dive into advanced portfolio management strategies and capital market theories, empowering students to make informed and strategic investment decisions in a dynamic financial landscape.

Unit – III: Fixed Income Securities - Analysis, Valuation and Management:

This unit delves into the intricate world of debt instruments and the strategic management of bond portfolios, offering a comprehensive exploration of features, valuation methods, and portfolio management strategies.

The study commences by dissecting the Features and Types of Debt Instruments, shedding light on the diverse characteristics and structures that define various fixed-income securities. The Bond Indenture, a legal agreement outlining the terms and conditions of a bond issue, is explored, providing insight into the contractual obligations governing debt instruments.

Factors Affecting Bond Yield become a focal point, emphasizing the dynamic variables that influence the return on investment in the debt market. The unit then navigates through various Bond Yield Measurements, including Current Yield, Holding Period Return, Yield to Maturity (YTM), Average Yield to Maturity (AYTM), and Yield to Call (YTC). These metrics offer nuanced perspectives on bond performance and profitability.

Bond Valuation takes center stage, employing the Capitalization of Income Method to assess the intrinsic value of bonds. Bond-Price Theorems are elucidated, providing theoretical foundations for understanding bond prices. Special attention is given to the Valuation of Compulsorily/Optionally Convertible Bonds and Deep Discount Bonds, offering insight into unique debt instruments.

Bond Duration becomes a critical concept, with a discussion on Macaulay's Duration and Modified Macaulay's Duration. Bond Convexity is explored, highlighting the curvature in the relationship between bond prices and yields.

Considerations in Managing a Bond Portfolio are discussed, addressing the Term Structure of Interest Rates and the Risk Structure of Interest Rates. The unit concludes with an exploration of Managing Bond Portfolio Strategies, including Bond Immunization, Active, and Passive Portfolio Management.

This unit equips students with a profound understanding of debt instruments and strategic approaches to managing bond portfolios, empowering them to navigate the complexities of fixed-income markets.

Unit – IV: Common Stocks - Analysis and Valuation:

This unit delves into the intricacies of common stocks, exploring their basic features and various valuation approaches, alongside an examination of asset pricing models.

The study initiates with an exploration of the Basic Features of Common Stock, shedding light on the fundamental characteristics that distinguish equity ownership in a company. The unit then delves into Approaches to Valuation, including the Balance Sheet Model, Dividend Capitalization Models, Earnings Capitalization Models, and the widely used Price-Earnings Multiplier Approach. The Capital Asset Pricing Model (CAPM) is introduced as a cornerstone model, providing a theoretical framework for understanding the relationship between risk and expected return.

Further valuation methods are explored, including the Free Cash Flow Model and Relative Valuation using comparables, such as Price-to-Earnings (P/E), Price-to-Book Value (P/BV), and Price-to-Sales (P/S) ratios. These methods offer diverse perspectives for assessing the intrinsic value of common stocks.

Security Market Indexes take center stage, and their uses are discussed, emphasizing their role in tracking and benchmarking market performance. The computational procedure of prominent indexes like Sensex and Nifty is outlined, providing insight into how these indices are calculated and interpreted.

The Capital Asset Pricing Model (CAPM) is revisited to explore the Security Market Line, an essential tool for evaluating the expected return on an investment relative to its systematic risk. The unit extends its examination to identifying over-priced and under-priced securities using the principles of CAPM.

The Arbitrage Pricing Theory (APT) is introduced, exploring the Law of One Price, Two-Factor Arbitrage Pricing, and Equilibrium Risk-Return Relations. A synthesis of CAPM and

APT provides a comprehensive understanding of these asset pricing models and their applicability in different market conditions.

This unit equips students with a nuanced understanding of common stock features, diverse valuation techniques, and asset pricing models, empowering them to make informed investment decisions in the dynamic world of financial markets.

Unit – V: Portfolio Evaluation:

This unit delves into performance measurement tools and the intricate world of mutual funds, providing a comprehensive understanding of various indices and the genesis, features, and regulations governing mutual funds.

The exploration of Performance Measures commences with Sharpe's Reward to Variability Index, which evaluates the risk-adjusted performance of an investment by considering its return relative to its volatility. Treynor's Reward to Volatility Index is introduced, emphasizing the relationship between return and systematic risk in a portfolio. Jensen's Differential Index, a measure of portfolio manager performance, is explored, along with Fama's Decomposition of Returns, providing insights into the sources of investment returns.

The focus then shifts to Mutual Funds, beginning with their Genesis. The Features, Types, and Schemes of mutual funds are examined, offering a comprehensive overview of the diverse investment vehicles available to investors. The Net Asset Value (NAV), Costs, Loads, and Return of mutual funds are discussed, providing a practical understanding of the financial aspects associated with mutual fund investments.

The unit also addresses the Problems and Prospects of mutual funds in the Indian context, exploring the challenges and opportunities in this dynamic sector. The Regulation of Mutual Funds and Investor Protection in India takes center stage, shedding light on the regulatory frameworks that govern mutual funds and safeguard investor interests.

This unit equips students with the knowledge and tools to critically analyze investment performance and make informed decisions regarding mutual fund investments. The insights into the regulatory landscape ensure a holistic understanding of the mutual funds industry, contributing to a well-rounded comprehension of financial markets.