**MIDTERM EXAM REVIEW**

SECTION I – PORTFOLIO MANAGEMENT – 30%

Historical Analysis / Scenario Analysis

1. Calculate the Average Return, Standard Deviation, Combining 2 asset classes (return and Standard Deviation), Correlation









1. Starting with $100,000 (INPUT of three asset classes that you investing – given the weights, the historical returns, historical standard deviations) – OUTPUT: average return, sharp ratio for risky asset (Premium/Standard Deviation) – Combine return/SD Ret=Ws.Rs+Wb.Rb SD=Sqrt[Wb^2.SDb^2)+(Ws^2.SDs^2)+2(Ws.Wb.SDs.SDb.Corr)]

SR = (Rp – Rf)/SDp



1. I will have info on 2 portfolios and the market benchmark, and you will calculate the CAPM = Rf + B(Rm – Rf) , Sharpe Ratio, Alpha=Rp – CAPM



SECTION II – BONDs– 30%

1. Calculate Bond Price / Invoice Price
   1. MV of the Bond = Price x 10, Invoice Price = MV + Accrued Interest



1. YTM, YTC, YTW, Current Yield – (input Issue Date, Trading Day, Price of The bond, redemption, frequency, coupon rate)



1. Price, Duration, Convexity – Spreadsheet that you need to build)



The formula for calculating the convexity is as follows:

Where is the periodic yield, t is the time period, CF is the cash flow payment or the coupon payment, n is the number is periods, andis the frequency of payments per year.

SECTION III – Stock trading returns / valuation – 20%

1. Buy a stock, sell a stock, receive a dividend – calculate the return HPR% (margin, selling short or outright)
   1. Example: Buy $100, sell $120, receive div $4 – calculate HPR%= HPR%=(CF/I) (120-100+4)/100 = 24/100 = 24%
   2. Example: The same numbers with 50% margin loan @10% interest): (120-50-5+4-50)/50 = 19/50 = 38%
   3. Short Selling: Borrow shares and sell at $100. Buy back all shares at $80 – calculate HPR%= 100-80/100 = 20%
2. Stock Valuation: INPUT/OUTPUT: Enterprise Value

EV = (Shars Outs x Stock Price) + Debt – Cash,

EV=EBITDA x Multiple

Intrinsic Value (Expected Pr+Div)/CAPM and

Div. Disc Model = DIV / (CAPM-Growth)

CAPM = Rf + b (Rm – Rf)

Summary DCF

INPUT: Stream of Cash Flows, Terminal Value, Discount Rate (CAPM)

OUTPUT: Equity Value and Stock Price





SECTION IV – Financial Analysis – 20%

INPUT: 2 YEARS OF BALANCE SHEET AND 2 YEAR OF INCOME STATEMENT

OUTPUT: BUILD A CASH FLOW STATEMENT AND RATIO ANALYSIS (CHAPTER 15)