**Investment Analysis and Portfolio Management**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for April 2025 Examination**

**1. Riya is an aspiring entrepreneur who has recently come up with a promising idea for a tech startup. However, she faces a major hurdle – raising enough funds to bring her vision to life. After exploring various options, Riya decides to approach the capital market to seek funding. She begins researching how the capital market works and realizes that it can play a vital role in the growth of her startup. Highlights the functions of capital market plays in the financial system.**

**Answer:**

**Introduction:**

Riya, an aspiring entrepreneur, has developed an innovative tech startup idea but faces the challenge of securing adequate funding. After evaluating multiple financing options, she turns to the capital market, recognizing its potential to provide the necessary funds for her venture. The capital market plays a crucial role in the financial system by facilitating long-term investments, enabling companies to raise capital through equity and debt instruments. It connects investors with businesses, promotes economic growth, ensures liquidity, and enhances wealth creation. Understanding the functions of the capital market will help Riya make informed decisions about funding her startup effectively. This analysis explores the key functions of the capital market and its impact on the financial ecosystem.

**This is partially solved sample answer**

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**2. Arvind is a financial analyst working at a leading investment firm. Arvind decides to use the Capital Asset Pricing Model (CAPM) to calculate the expected return on the stock. While working on the model, Arvind’s senior warnings about the limitations of CAPM, especially in real-world applications. Although CAPM is a widely used model, it comes with certain assumptions that might not always hold true in the actual market. Describe all those limitations which Arvind has to keep in mind.**

**Answer:**

**Introduction:**

Arvind, a financial analyst at a top investment firm, relies on the Capital Asset Pricing Model (CAPM) to determine the expected return on a stock. While CAPM is a widely used tool in finance, his senior warns him about its limitations in real-world applications. CAPM assumes a risk-free rate, a perfectly efficient market, and rational investors—conditions that do not always hold in reality. Market imperfections, changing risk premiums, and difficulties in accurately estimating beta can lead to misleading results. Additionally, factors like investor sentiment, liquidity constraints, and macroeconomic shifts impact stock returns beyond CAPM’s scope. Arvind must be aware of these limitations to make well-informed investment decisions. This analysis explores the key drawbacks of CAPM in practical applications.

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**3a. Mr. Aditya purchase 500 shares of XYZ co. at Rs.100 each. During the year company declare a dividend 50 per share. At the end of year Mr. Aditya sale, the shares at Rs.200 per share. Calculate total return at the end of the year.**

**Answer:**

**Introduction:**

Mr. Aditya invests in 500 shares of XYZ Co. at Rs.100 per share, totaling an initial investment of Rs.50,000. During the year, the company declares a dividend of Rs.50 per share, providing him with additional earnings. At the year’s end, he sells the shares at Rs.200 each, doubling his initial investment. To determine his total return, we need to calculate both his capital gain and dividend income. This analysis will help assess his overall profit from the investment.

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**3b. Ajay has recently started investing in the stock market. He has been reading a lot about the potential of earning high returns, but he is also keen on understanding the various costs associated with trading stocks. Suppose you are good friend of Ajay & investing in the stock market from last few years. Explain him about the different types of transaction costs involved while trading.**

**Answer:**

**Introduction:**

Ajay, as you explore stock market investing, it’s essential to understand the transaction costs involved in trading. These costs can impact your overall returns and should be factored into your investment decisions. As someone with experience in the market, I’ll guide you through the key transaction costs, including brokerage fees, Securities Transaction Tax (STT), stamp duty, exchange fees, and other hidden charges. Knowing these costs will help you make informed trading decisions and optimize your investment strategy.

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