

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II- Semester VII) Examination

July 2017

FIN 2205 – Security Analysis

Two (02) Hour

Answer all Questions

- 1.
- i. Briefly distinguish the difference between financial and economic meaning of investment?

(05 marks)
 - ii. It is said that “Investment is well-grounded and carefully planned speculation”. Briefly explain your answer.

(06 marks)
 - iii. Describe briefly the important investment avenues available for savers in Sri Lanka.

(05 marks)
- (Total: 16 Marks)**
2. “Technical analysis is a controversial investment practice which has been greatly debated among the proponent and opponent of the efficient market hypothesis”
- i. Explain briefly why proponent of the efficient market hypothesis critic on Technical Analysis?

(04 marks)
 - ii. List reversal and continuation patterns identified in the Technical Analysis.

(04 marks)
 - iii. Do you think that “Fundamental Analysis is substitute to Technical Analysis”. Briefly explain your answer.

(04 marks)
 - iv. Briefly explain two advanced techniques used in technical analysis to trade securities.

(06 marks)

v. List four types of moving average strategies used in the technical analysis and briefly explain the Moving Average Convergence and Divergence (MACD).
(06 marks)

vi. "The Eliot Wave Theory is based on the principle that action is followed by reaction." Explain.
(06 marks)

(Total: 30 Marks)

3. Assume that you are a consultant working for newly established Kavin fund Management Company in Sri Lanka. The research team seek your advice on following in order to prepare a research analyst report covering Dialog Company Shares.

i. It has been recommended to use Fundamental Analysis instead of Technical analysis in preparing the research analyst report. What is your justification for the above recommendation?
(04 marks)

ii. Briefly describe the key economic variables that the company must monitor as a part of its fundamental analysis?
(04 marks)

iii. Among short term economic forecasting techniques which technique would you recommend them to follow? Why?
(04 marks)

iv. Describe the various characteristics of an industry that an analyst must consider while doing industry analysis?
(06 marks)

v. Why the company should use two valuation as primary and Secondary valuation in covering a share?
(03 marks)

vi. What would be your recommendation as primary and secondary valuation techniques to company? Justify your answer
(04 marks)

vii. Briefly explain three types of multiples that the team can consider in relative valuation with the pros and cons of each type.

(08 marks)

viii. State how an investor can make buy or sell decision based on the above (vii) identified multiples.

(06 marks)

ix. What are the factors that analyst should look into in selecting the peers in relative valuation.

(03 marks)

(Total 42 Marks)

4. "An efficient financial market processes the information available to investors and incorporates it into the prices of securities".

i. Which of the following statements are true about the efficient market hypothesis? Why?

- a) It implies perfect forecasting ability.
- b) It implies that price reflect all available information.
- c) It implies an irrational market.
- d) It implies that prices do not fluctuate.
- e) It results from keen competition among investors.

(05 marks)

ii. What are the implications of the efficient market hypothesis for investors who buy and sell stocks in an attempt to beat the market?

(07 marks)

(Total: 12 Marks)
