

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE

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

July/August 2016

FIN 2205 – Security Analysis

One (02) Hour

Answer all Questions

1. Assume that you are an analyst working for a Liberty fund management company in Sri Lanka. You are required to develop a research analyst report covering a stock listed in CSE in your own choice and recommend whether it is a good **buy** or **sell**.

Your report need to cover all the aspects of fundamental analysis. Give the rational and justification of selecting valuation techniques and other required information. Include two types of risk that may affect the above selected stock.

(Total: 20 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?
(06 marks)
 - ii. Explain briefly the reversal and continuation patterns identified in the Technical Analysis.
(06 marks)
 - iii. Do you think that "Fundamental Analysis is substitute to Technical Analysis" Explain your answer.
(06 marks)
 - iv. Briefly explain two advanced techniques used in technical analysis to trade securities.
(06 marks)

(Total: 24 Marks)

3. "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?

- 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?

(05 marks)

(Total: 10 Marks)

4. i. Active and Passive investments strategies are two major categories of equity selection. Explain briefly what are meant by active investment strategies and passive investment strategies.

(06 marks)

ii. List and briefly explain four active equity selection techniques.

(12 marks)

iii. In an efficient market which investment strategy would you recommend to follow in equity investment?

(02 marks)

(Total: 20 Marks)

5. i. Briefly explain three types of multiples use in relative valuation.

(06 marks)

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

(04 marks)

ii. Critically discuss both pros and cons of those multiples state (i) above.

(06 marks)

(Total: 16 Marks)

6. Briefly explain two of following in your choice.

i. Short term Economic Forecasting Techniques.

ii. Dow Theory.

iii. Eliot Wave Theory.

iv. Assets allocation strategies in investment.

(Total: 10 Marks)
