GL BAJAJ
Institute of Management & Research
Approved by A.I.C.T.E., Ministry of HRD, Govt. of India

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306
POST GRADUATE DIPLOMA IN MANAGEMENT (2024-25)
MID TERM EXAMINATION (TERM -IV)

Subject Name: **Personal Wealth Management**	Time: **01.00 hrs**
Sub. Code: **PGF43**	Max Marks: **20**

Note: Use Statistical formulae and a normal calculator to answer the questions

Section-A

Question-1 (CO2)   **(12 Marks)**

Right Horizons(www.righthorizons.com) is an end-to-end investment advisory and wealth management firm that focuses on providing a solution that is specific to customer needs like corporate treasury management, Tax planning, corpus fund planning, etc. One of his client wishes to purchase 2 stocks, one related to banking stock (Asset S) and another technology (Asset A).

The following is the forecast of returns on both stocks during 4 phases of the economy – High Growth, Low Growth, Low Growth, Stagnation and Recession.

Brief Profile of Companies whose stock want to purchase by the client of Radiant Securities.

HDFC Bank

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. The the bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

As on 31st March, 2009 the authorized share capital of HDFC Bank is Rs. 550 crore. The paid-up capital as on the said date is Rs. 425,38,41,090/- (42,53,84,109 equity shares of Rs 10/- each). The HDFC Group holds 19.38% of the Bank's equity and about 17.70% of the equity is held by the ADS Depository (in respect of the bank's American Depository Shares (ADS) Issue). 27.69% of the equity is held by Foreign Institutional Investors (FIIs) and the Bank has about 5,48, 774 shareholders.

The shares are listed on the Bombay Stock Exchange Limited and The National Stock Exchange of India Limited. The Bank's American Depository Shares (ADS) are listed on the New York Stock Exchange (NYSE) under the symbol 'HDB' and the Bank's Global Depository Receipts (GDRs) are listed on Luxembourg Stock Exchange under ISIN No US40415F2002.

State of Nature	Probability	Return on Asset HDFC Bank (S)
High Growth	0.10	5%
Low Growth	0.30	10%
Stagnation	0.50	15%
Recession	0.10	20%

HCL Technologies Limited

HCL Technologies is a leading global IT services company, working with clients in the areas that impact and redefine the core of their businesses. Since its inception into the global landscape after its IPO in 1999, HCL focuses on 'transformational outsourcing', underlined by innovation and value creation, and offers integrated portfolio of services including software-led IT solutions, remote infrastructure management, engineering and R&D services and BPO. HCL leverages its extensive global offshore infrastructure and network of offices in 26 countries to provide holistic, multi-service delivery in key industry verticals including Financial Services, Manufacturing, Consumer Services, Public Services and Healthcare. HCL takes pride in its philosophy of 'Employee First' which empowers our 54,443 transformers to create a real value for the customers. HCL Technologies, along with its subsidiaries, had consolidated revenues of US$ 2.3 billion (Rs. 11,270 crores), as on 30th September 2009 (on LTM basis).

HCL is a $5 billion leading global Technology and IT Enterprise that comprises two companies listed in India - HCL Technologies & HCL Info systems. Founded in 1976, HCL is one of India's original IT garage start-ups, a pioneer of modern computing, and a global transformational enterprise today. Its range of offerings spans Product Engineering, Custom & Package Applications, BPO, IT Infrastructure Services, IT Hardware, Systems Integration, and distribution of ICT products across a wide range of focused industry verticals. The HCL team comprises over 60,000 professionals of diverse nationalities, who operate from 26 countries including over 500 points of presence in India. HCL has global partnerships with several Fortune 1000 firms, including IT and Technology firms.

State of nature	Probability	Return on asset HCL Technologies Limited (A)
High growth	0.10	0%
Low growth	0.30	8%
Stagnation	0.50	18%
Recession	0.10	26%

The client is a very curious but risk averse investor who has heard much about portfolio and asset pricing theories. He requests you to answer the following questions:

Q. 1. What is the standard deviation of the return on asset S and asset A
Q. 2. What is the covariance between the return on asset S and asset A
Q. 3. What is the coefficient of correlation between the returns on assets S and A
Q. 4. Which Asset is preferred by investor and state the reasons for his preference

Section-B

Question-2 (CO1)   **(08 Marks)**

"Herding is said to be perhaps the most pervasive bias investors fall victim to. It describes an investor following the trend of their peers piling into a particular stock or fund. This could be from seeing more headlines about a stock, and/or just word of mouth. We often hear herding described as "jumping on the bandwagon."

Humans naturally want to be part of a community. Following the crowd – or at least being influenced by what the crowd is doing – is human nature. Evolutionarily speaking, conformity typically serves us well in social settings. In regards to stock picking, the investor (or trader, in this case) may be able to turn a quick profit if they can get in on the "trend" early enough to ride the wave upward. On the flip side, it may come crashing down later.

In any case, herding is irrational in that it refers to investors taking action simply because others are taking the same action. As you might imagine, this can result in bubbles and panic selling. The Dotcom bubble and subsequent crash is a perfect example of this, when stock market valuations in no way reflected the firms' fundamentals.

Herd investors typically don't have any sort of investing plan, much less an investment policy statement that would prevent them from taking such action in the first place. They typically listen to the noise and trade often based on the shiny object of the week. They also don't know how severely they underperform the market. Herding appears to be the behavioral finance explanation of the momentum factor, and may be responsible for the insane valuations we've seen in recent years for Big Tech.

As usual, one can avoid herding by ignoring the short-term noise and avoiding trading on emotion. Don't pay attention to the pundits and the sensationalized headlines. Do your own research, remain objective, and stay the course. It's easier said than done, but don't be afraid to go against the herd if the fundamentals warrant doing so. As Buffett said, be greedy when others are fearful and be fearful when others are greedy."

From the above discussion,

Q. 1. identify the Market anomalies causing by herd tendency of investors
Q. 2. State the strategies to avoid herding while investing