Filmore enterprises essay

See the attachment (expected rate of return) b. Based soly on expected returns, investment on CPC appears the best, for it has 9. 70% expected returns, yet the investment on MORELY appears the cost, which has only 5. 70% expected returns. c. Rate of return is mainly connected with the beta coefficient, which means if the rate of return is relatively higher, then the company will have higher risk. Judging from table1 in the attachment, CPC with higher rate of return(9. 70%) has higher beta coefficient(1. 53%), which means it might be the most profitable one, but the risk is high, while MORELY has the lowest rate of return(5. 70%)with the risk of -0. 77% (it's riskless). As for EAT, the rate of return is a little lower than CPC, but still very high, so it might also has high risk.

T-bill return is independent of the state of economy. According to the attachment, we can see that the figures of economy of T-bill are all the same, which means no matter what the state of economy is, it won't be affected; The beta coefficient is 0 and because of it is independent of the changable economy, T-bill surely promise completely risk-free returns. b. T-bond returns vary because it is not independent of the state of economy, that is to say, it is affected by the market returns; Est. Y= Constant+Coefficient*Market

So, because of the coefficient is a negative value, so when the market returns are low, the T-bond returns high, vice versa. c. The returns on corporate bonds that Filmore Enterprises might issue are all higher than T-bonds, which is 7. 70%, 8. 90% respectively; my answer would dependent on the potential bond rating of Filmore Enterprises.

See the attachment b. It can be clearly seen form the table 1 in the attachment that the risk and expected return of all six assets are proportional to each other, that means the higher the risk, the higher the returns, vice versa; more " efficient solutions" are available and the preferred solution must be selected by considering a tradeoff between risk and return. a portfolioA is dominated by another portfolio if it has a greater expected gain and a lesser risk than A. So, for those six assets in table1, the main reason which caused the discrepancies are the value of risks and returns.

a. See the table 2 from the attachment. b. See the table 2 from the attachment. c. If i formed another portfolio composed of CPC and EAT, for example, if i put additional stocks and bonds in the economy, the risk is actucally getting lower; In CPC-Morely portfolio, d. The expected return and standard deviation will change as the portfolio mix changes.(see the assumption portfolio on the attachment).

Check the table5-2 in the attachment(by the PORTSIZE) [pic] if the investor adds more and more randomly-selected stocks to the portfolio, the risk will be lower, because as you can see from the graph, with the number of stock added into the market, the portfolio standard deviation is reducing gradually and because portfolio standard deviation is a tool to measure risk, so the risk is reducing at the same time.

Diversification is actually like " don't put all your eggs in one basket", hold one stock is risky, but on the other hand, investors won't lose all of their money because of that one stock, investors holds more stock has low risk

but they will loss most of their money if the company had bad performance. So, Dropping the basket will break all the eggs. Placing each egg in a different basket is more diversified. I don't think that the non-diversified investors could be compensated for all his or her risks, because.

Market risk is the risk of losses in positions arising from movements in market prices, it includes: equity risk, current risk, commodity risk and interest rate risk; diversified risk means those risks invested in variey of assets. The risk of price change due to the unique circumstances of a specific security, as opposed to the overall market. Total risk is the combination of all risk factors associated with making some type of investment decision. Pension funds are important shareholders of listed and private companies. They are especially important to the stock market where large institutional investors dominate. As for U. S., they are informed of pension funds, because of different funds, the diversification increased.

a. Compare the slop coefficients in the characteristic lines with thoes betas provided in Table 1, we can see that the values are almost the same. b. The significance of the difference between the plot points and the regression line, as you can see from the characteristic lines, is not simply errors. If the plot points closer to the line, which is 1. 00, the return would be better. c. It measures the part of the asset's statistical variance that cannot be removed by the diversification provided by the portfolio of many risky assets, because of the correlation of its returns with the returns of the other assets that are in the portfolio.

Beta can be estimated for individual companies using regression analysis against a stock market index; investor use beta to get a sence of stocks' risk profiles. Beta is a measure of a stock's volatility in relation to the market. High-beta stocks are supposed to be riskier but provide a potential for higher returns; low-beta stocks pose less risk but also lower returns. d. see the chart of " Relationship Between Beta and Expected Return of Each Security" on the attachment. And it can be clearly seen from the chart that the risk and return relationship appear unreasonable relative to the market, for the market value of risk and return are 1. 00 and 8. 30% respectively, but T-bond, T-bill and morely are way lower than the market. Also CPC and EAT are a little higher but normal.

a. See the Security Market Line in the attachment. b. See the required rate of return for CPC, Morely, and EAT on the attachment. Based on the required rate of return from the SML and the expected return from question 1, i would buy the stocks of CPC and EAT rather than the rest because their value of expected return are actually higher than the required rate of return, which means there's more possibility for them to make profits. c. The stocks are not in equilibrium. If the stock is not in equilibrium, that means the price is not stable. However, due to the balancing effect of supply and demand results in a state of equilibrium. So, what we should do is to balance the supply and demand to make the price stable by several ways like give the shareholder more profits in order to attract their's investment and Decided to invest in good projects and positive reports, etc.

a. The beta coefficient for a 40/60 portfolio of CPC-EAT is 1. 35, which shows in the table. And the require rate of return of CPC-EAT is: 4. 5+1. 35*(8. 98-4.

5)= 10. 55> 8. 98 (expected return) From the formula, we can see that the value of required rate of return is higher than the expected return, which means the expected return would not purchase this portfolio because it can not meet their demands. b. with greater shares put into the market, the Filmore Enterprise's risk will reducing(as the former answers mentioned), and the require return on equity will be higher because of the increasing shares.

a. A decrease in risk aversion will decrease the return an investor will require on stocks. Thus, prices on stocks will increase because the cost of equity will decline. b. With the decline in risk aversion, the risk premium will decline as compared to the historical difference between return on stocks and bonds. c. The implication of using the SML equation with historical risk premiums(which would be higher than the " current" risk premium) is that the CAPM estimated required return would actually be higher than what would be reflected if the more current risk premium were used.