

PGDM/13, 2017-19

Financial Planning and Wealth Management

DM-512/13-513

Trimester - V, End-Term Examination: December 2018

Time allowed: 2 Hrs 30 Min

Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously. Please carry a non-programmable calculator.

Section: A (15 Marks).

Attempt 3 out of 5 questions, each question carries 5 marks.

1. "Insurance contracts are subject to 'Insurable Interest' – Discuss this statement critically.
2. According to Pompian (2011), which biases are more predominant among 'conservative' investors and 'aggressive' investors?
3. What is the answer to the question 'What determines portfolio performance?', as per Brinson, Hood, and Beebower (1995). Discuss critically.
4. Discuss the basic differences between 'active management' and 'passive management' of funds.
5. Amit plans to retire in 3 years. After retire Rajat will need Rs. 1000000 pa. Amit thinks he will live 4 years after retirement. Taking interest rate at 10%, how much he will need to accumulate till retirement?

Sec B

(Answer any two questions out of five. Each question carries ten marks)

6. 'Goal setting is an integral part of the wealth management process' - Explain this statement critically.
7. 'Overconfidence and Mental Math influences the decisions taken by investors'. Critically examine this statement with examples.
8. You are appointed as a tax consultant of Akash infotech Ltd. Suggest with reasoning five ways so that employer can save tax by providing certain perquisites to the employee.

Sec C
(15 marks)

9. Today is 26th July, 2008.

Madhur Bose has approached you for construction of his Financial Plan. His details are as follows:

Madhur, born on 31st December 1948, life expectancy at birth 65 years, is a Sr. Manager with a Public Limited Company. He is presently posted in Kolkata, staying with his family in a house provided by his employer. He has had a stable tenure with the same organization for the last 20 years and 4 months. He will be completing 60 years of age on 1st January 2009, when he will retire from his service. During his employment he had concentrated more on his work and less on his personal finances. As he is now on the verge of his retirement, he does not have any idea how to manage his post retirement finances. His wife Nirmala, born on 31st Jan 1953, life expectancy at birth 70 years, is a house wife. Vaibhavi their daughter, born in 1988 is a student presently doing graduation. A diligent information gathering session with him yielded the following quantitative and qualitative data.

Madhur's salary and perquisites for the Financial Year 2007-08 is as follows:

	Rs.
Basic Salary	18000 pm
DA	6500 pm
Bonus	18000 pa
Entertainment Allowance	8000 pa
Transport Allowance	800 pm
Rental from own house	9000 pm

Post Retirement Income

Pension: Rs. 125000 pa

Pension from LIC: Rs. 20200 pa fixed for entire life and will start from 1st Feb 2009.

Existing Post-Office MIS: Rs. 4800 pa (maturing in June 2011)

Post Retirement Expenditure

Household expenses: Rs. 1,15,000 p.a. (with 6% increase p.a.)

Premium for Health Insurance: Rs. 3,000 p.a. (Cover for family)

Life Insurance Endowment Policy premium Rs.1,600 (payable quarterly).

EMI for Housing loan Rs. 3,026 (being paid from 1st Aug 2005)

Vaibhavi's Educational Expenses

Assets

House at Kolkata - Rs. 4,50,000 (Cost Price in the year 1997).

Bonds - Rs. 85,000 (Maturity value in Apr 2009)

PPF- Present Value Rs. 1,08,000 (maturing in 2011)

Retirement Proceeds: Rs. 10,75,000 to be received in Feb 2009.(Including Gratuity: Rs. 3,15,000)

An Endowment Life Insurance plan for 20 years taken on 20th Feb 1990 for a sum assured of Rs. 2 lakh.

Liabilities

Housing loan taken by Madhur on 1st Jul 2005 for renovation of his house in Kolkata Rs. 1,75,000.

Present interest being charged is 10% p.a.

Vaibhavi's Education Expense: Rs. 8,00,000. (For Post Graduation Program)

Vaibhavi's Marriage Provision in the year 2012: Rs. 5,00,000 present cost

Others

Madhur wants to maintain Rs. 1,30,000 in Cash for contingencies.

Both Madhur and his wife possess good health. Post retirement they would maintain active life.

Note:

1. Housing loan interest rate at the inception was 7.5% p.a , and was 8% p.a with effect from April 2006 and 10% p.a with effect from April 2008 on the outstanding balance amount. However, Madhur has kept the EMI same since inception.

2. Present interest rate on 5 years Fixed Deposit is 8% p.a.

3. Madhur wants to buy a house, fix it up and resell it at a profit. He is looking at a 25% annual return on this project and there is a 2% real estate brokerage payable for these transactions (both buy & sell).

4. You have recommended Madhur to put his money in a Balanced Mutual Fund which charges an entry load of 2.25%. Management and other fee is 1.10% P.A. charged at the end of the year.

Questions

i) You have recommended Madhur to invest in a Balanced Mutual Fund. What annual returns should the fund generate in the first five years to equal the value that the investment would have earned in Fixed Deposit? (Ignore taxes if any).

ii) In case you recommend Madhur to put 60% of his money in asset A offering 15% annual return with a standard deviation of 10%, and balance funds in asset B offering a 9% annual return with a standard deviation of 8%, what is the expected return after 1 year and standard deviation of Madhur's portfolio?

Assume the Coefficient of Correlation between the returns on assets A and B is 0.50.

iii) Madhur had invested in an open ended Mutual Fund when the NAV of the Fund was Rs. 10. After 6 months the NAV was Rs. 12. Compute the annualised percentage change in the fund. (Ignore all charges).
(5 marks x 3)