Quiz A for 4:00 Class: 9/26/12 Name ____________________________

Note: Answer all of the following on a single graph. Be sure to clearly label which part of the graph answers which question.

Assume you are planning to build portfolios of the three following stocks.

Asset	Expected Return	Standard Deviation
Hershey	5%	8%
Wal-Mart	20%	28%
Cisco Systems	35%	48%

The correlation between the returns on these pairs of stock vary between +0.1 and +0.3.

a. Sketch a graph that shows the risk and return of all possible portfolios if you limit yourself to holding long positions in these three stocks.
b. Assume you would like an expected return of 38%. Identify on your graph your best possible portfolio.
c. Assume you allow both long and short positions in the three stocks. How would your answer change from part b.
d. Assume that due to an acquisition, the expected return on Cisco rises to 45% but the standard deviation on of returns remains at 48%. The correlations between the stocks remain the same. How would your answer to c. change? Show on your graph how much better off you are after the change.

Wall Street Journal Questions are on the back of this page.