4:00 Quiz: 2/22/12 Name ____________________________

Quiz: Assume you are considering creating a portfolio by purchasing and/or short-selling shares of Kellogg (K) and Royal Dutch Shell (RDS) The correlation between these two stocks equals -0.2. The expected return and standard deviation of returns (volatility) on the two stocks equal:

Stock	Expected Return	Standard Deviation
K	5%	16%
RDS	12%	27%

a. Sketch a set of portfolios it would be possible to build using these two stocks and identify the best portfolio you could build if you desire an expected return of 8%.

b. If the correlation between the two stocks rises, how will the set of possible portfolios change, How would the standard deviation of returns on your portfolio change (assuming you still desire an expected return of 8%)?

Note: Answer both parts on the same graph. Just be sure to label which part of the graph answers which question.

Note: Bonus WSJ Questions on back of page