Scale:
59 = 50
56 = 48
55 = 47
54 = 46
53 = 45
48 = 42
47 = 40
38 = 37
31 = 36
29 = 35
28 = 34
27 = 33
25 = 32
20 = 31
18 = 30
17 = 29
15 = 28

59

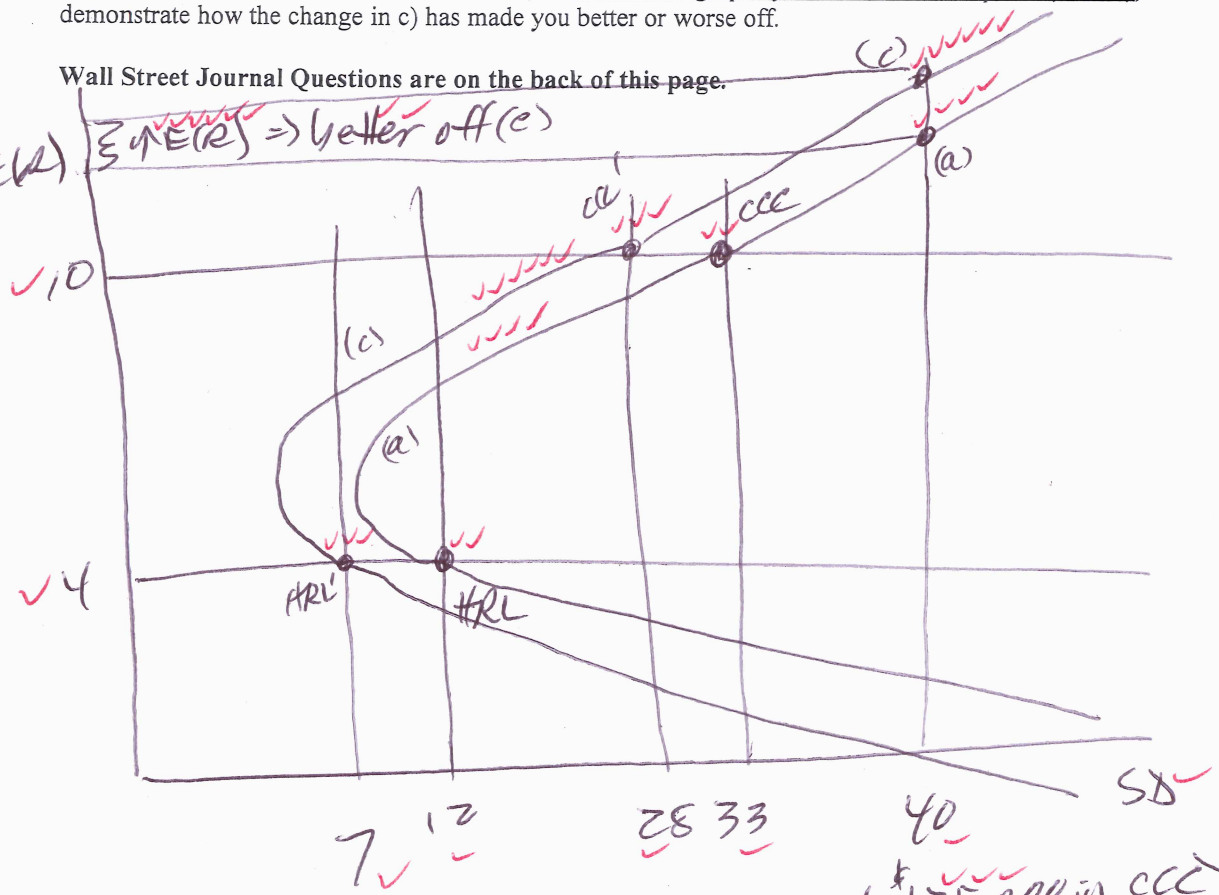
Quiz B for 4:00 Class: 2/18/13 Name Key

Note: Answer parts a, c, and e on the same graph. Be sure to clearly label which parts of your graph answer each part of the question.

Assume you have $100,000 and are considering buying and/or short-selling shares of Hormel Foods (HRL) and Carnival (CCC). According to your calculations, the expected return on Hormel equals 4% and on Carnival equals 10%. And according to your calculations, the standard deviation of returns (volatility) is expected to equal 12% for Hormel and 33% for Carnival. The correlation between Hormel and Carnival equals 0.2.

a. Sketch a graph of the portfolios it would be possible for you to construct and label your best portfolio if you want a standard deviation of returns of 40%.
b. What is the approximate dollar investment in each asset?
c. Assume the standard deviation of returns on both stocks fall by 5% (Hormel falls to 7% and Carnival falls to 28%). On the same graph you used to answer part a, show your new set of possible portfolios and your best portfolio (if you still want a standard deviation of returns of 40%).
d. What types of changes will you need to make to your investments?
e. Are you better or worse off in c) than in a)? On the same graphs you used to answer parts a) and c), demonstrate how the change in c) has made you better or worse off.

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



b. Short sell $25,000 of HRL & invest $125,000 in CCC
d. Short sell an additional $25,000 of HRL & invest additional $25,000 in CCC

} Exact #s not required