scale-Name Key Quiz A for 1:00 Class: 2/20/13 Assume you have \$100,000 and that you are considering buying and/or short-selling shares of Advanced 5/5.4/ Micro Devices (AMD), Time Warner (TWX), and Electronic Arts (EA). The expected return on AMD equals 15%, on TWX equals 3%, and on EA equals 8%. The standard deviation of returns on AMD equals 50 = 45 49= 44 64%, on TWX equals 10%, and on EA equals 31%. The correlations between these three stocks all fall between 0.2 and 0.4. 48= 43 a. On a graph identify the best way for you to achieve an expected return of 4%. b. Assume you can also buy or short-sell risk-free securities with a return of 2%. On the same graph you used to answer part a, show how much better off you are than in part a. c. What can you tell about the makeup of the portfolio you created in part b? Wall Street Journal Questions are on the back of this page. 43=1839 V EIR) AUS 39-35 38 = 34 V8 EA (4) TWK tle7.000 Treasuries + 13300 (n Targent Portfolio CT) Note: It would also be arrestable to show E(D) Two Tisk.

Note: The tangent postfolio(T) is not necessarity

at an 8% expected seturn.