Scale:
56=50
54=49
53=48
51=46
50=45
49=44
48=43
47=42
46=42
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29=26
28=25
24=22
13=12

Quiz B for 1:00 Class: 2/20/13 Name Key

Assume you have $100,000 and that you are considering buying and/or short-selling shares of News Corp (NEWS), J.C. Penny (JCP), and Wal-Mart (WMT). The expected return on NEWS equals 9%, on JCP equals 13%, and on WMT equals 3%. The standard deviation of returns on NEWS equals 34%, on JCP equals 56%, and on WMT equals 11%.The correlations between these three stocks all fall between 0.2 and 0.4.

a. On a graph identify the best way for you to achieve a standard deviation of up to 50%.
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.

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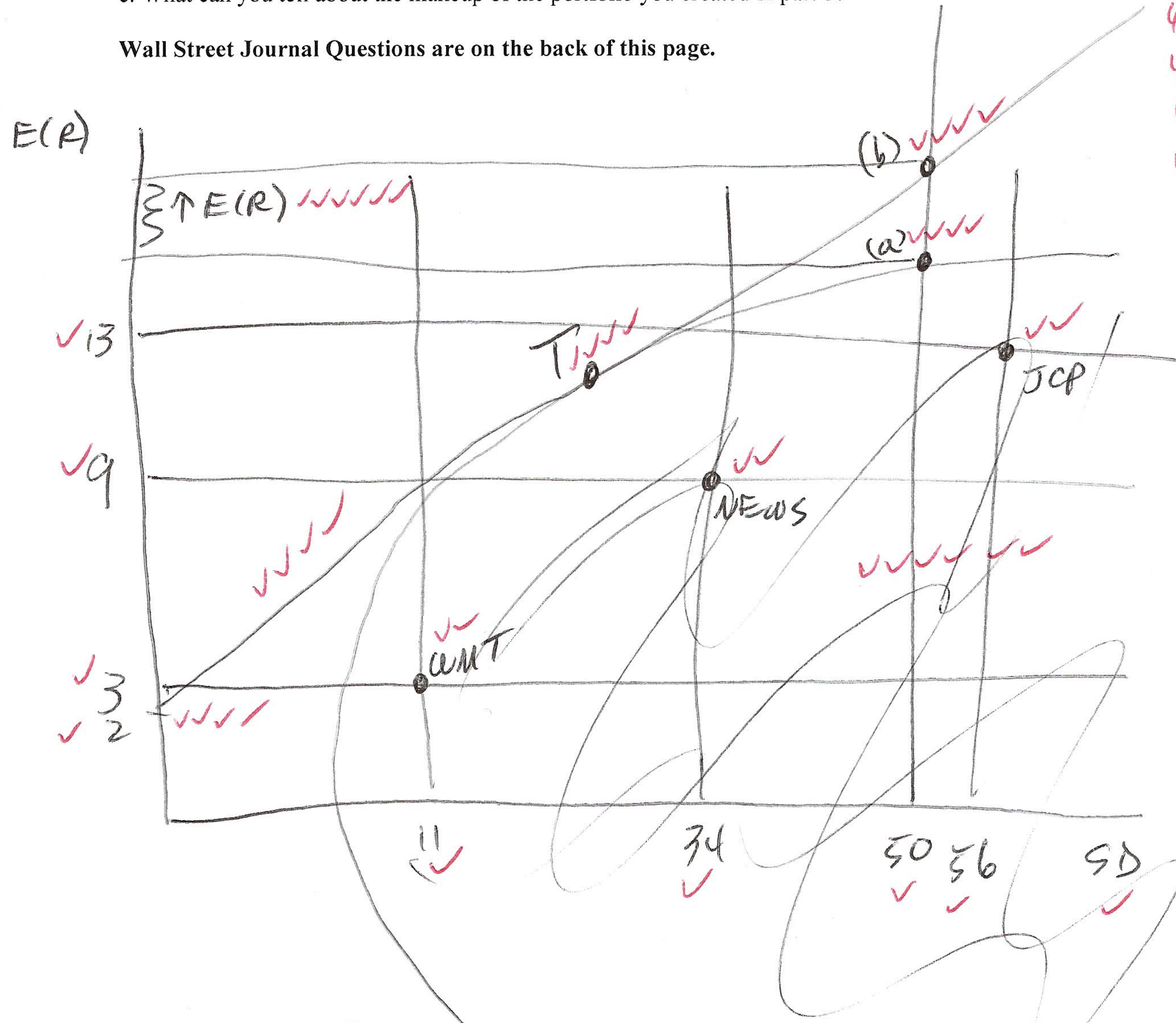

c. Short sell $67,000 of Treasuries & invest $167,000 in Tangent portfolio (T)

Note: It would also be acceptable to show that risk falls w/o E(R) changing