

**Quiz A for 1:00 Class: 2/20/13**

Name \_\_\_\_\_

Assume you have \$100,000 and that you are considering buying and/or short-selling shares of Advanced 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 64%, on TWX equals 10%, and on EA equals 31%. 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 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.**