

Quiz B 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 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.