Finance 5360 Quiz A: 7/22/15   Name _____

Assume you are considering investing $100,000 in a mix of T-bills which earn a 1% return, Cola-Cola which has an expected return of 12% and a standard deviation of returns of 18%, and Flight Analytics Inc. which has an expected return of 27% and a standard deviation of returns of 39%. Assume that the correlation between Cola-Cola and Flight Analytics is – 0.2.

a. Sketch a graph of the possible combinations of expected return and standard deviation that you could achieve if you limit yourself to positions (long or short) in Cola-Cola and Flight Analytics.
b. On the same graph you used to answer "a", identify the best portfolio that would allow you to earn 30%. What is the approximate mix of assets in this portfolio?
c. On the same graph you used to answer "a" and "b", identify the best portfolio that would allow you to earn 30% if you also allow some sort of position in T-bills.
d. Assume that the risk-free rate rises to 10%, but that nothing else changes. Identify your new best portfolio and show how much better or worse off you are in "d" than "c".