UNIVERSITI MALAYSIA TERENGGANU

FINAL EXAMINATION

SEMESTER I SESSION 2025/2026 (BACHELOR DEGREE)

COURSE	**:**	**INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT**
COURSE CODE	**:**	**FNC3833**
DURATION	**:**	**3 HOURS**

MATRIC NO.	**:**	____________________
PROGRAMME	**:**	____________________
SEAT NO.	**:**	____________________

INSTRUCTIONS TO CANDIDATES

i. This paper consists of **TWO (2)** parts: Part A and Part B. Part A consists of 32 multiple choice questions while Part B consists of 6 structure questions. Answer **ALL** questions.

ii. Part A must be answered in the OMR form, while Part B must be written in the answer booklet provided.

DO NOT OPEN THE QUESTION PAPER UNTIL INSTRUCTED

THIS QUESTION PAPER CONSISTS OF ELEVEN (11) PRINTED PAGES

PART A (40 Marks)

Choose the most appropriate answer for each question in this part.

1. A client takes out a large bank loan to purchase a piece of land, intending to sell it for a profit in three years. Based on the definition of investment, how would this action be classified? (1.25 marks)

   A. It is not an investment because the funds were sourced from a loan, not surplus money.
   B. It is an investment because it involves placing funds (even borrowed ones) into a real asset with the expectation of capital gain.
   C. It is not an investment, but rather a form of charity, as it does not involve financial assets.
   D. It is a short-term investment vehicle because the holding period is only three years.

2. An investor buys shares of "Company XYZ," a fund management company listed on Bursa Malaysia. How would you differentiate this action from buying units in "Company XYZ's Equity Fund"? (1.25 marks)

   A. Both are indirect investments because they involve a fund management company.
   B. Buying the shares is a direct investment (owning the company), while buying the fund's units is an indirect investment (owning a portfolio).
   C. Buying the shares is a tangible asset investment , while buying the units is a securities investment.
   D. Both are direct investments because the investor acquires a direct claim on a security.

3. According to investment point of view, what is the primary relationship between a corporation's real assets (e.g., machinery, buildings) and its financial assets (e.g., ordinary shares)? (1.25 marks)

   A. Financial assets are intangible and are created to be separate from the company's real assets.
   B. Financial assets represent a claim on the income that is generated by the corporation's real assets.
   C. Real assets are used to secure financial assets, guaranteeing that the shares will not be delisted.
   D. Real assets are considered indirect investments, while financial assets are direct investments.

4. An investor anticipates needing a significant sum of money in exactly 9 months. They place these funds into a money market unit trust fund. What two functions is this short-term vehicle fulfilling for the investor, according to investment point of view? (1.25 marks)

   A. Providing high capital gain and a hedge against derivatives.
   B. Representing equity ownership and providing dividend income.
   C. "Warehousing" idle funds and providing liquidity.
   D. Offering long-term debt contractual rights and fixed interest returns.

5. A company fails to make a profit in 2023 and 2024. In 2025, it earns a substantial profit. What is the most significant difference in how holders of cumulative preference shares and non-cumulative preference shares will be treated? (1.25 marks)

   A. Cumulative holders will receive dividends for 2023, 2024, and 2025, while non-cumulative holders will only receive the 2025 dividend.
   B. Non-cumulative holders will be paid for 2025 first, and cumulative holders will be paid any remaining profits.
   C. Cumulative holders will have their shares converted to ordinary shares, while non-cumulative holders will not.
   D. Both will receive dividends for all three years, but cumulative holders will also receive a capital gain.

6. If a financial planner calculates a population standard deviation when they should have calculated a sample standard deviation, what is the most likely analytical error in their client presentation? (1.25 marks)

   A. They will overstate the expected return of the investment.
   B. They will correctly state the risk, as the formulas are interchangeable.
   C. They will understate the investment's risk by presenting a standard deviation that is too low.
   D. They will overstate the investment's risk by presenting a standard deviation that is too high.

7. An investor is analyzing two different unit trust funds using the normal distribution:

   Fund X: Mean Return = 15%, Standard Deviation = 8%
   Fund Y: Mean Return = 10%, Standard Deviation = 8%

   Based on the bell curve distribution, what can be inferred about the 95% probability range for both funds? (1.25 marks)

   A. Fund X has a higher probability of loss because its mean is higher.
   B. Both funds have the same 95% probability range (width) because their standard deviations are identical.
   C. Fund Y has a higher probability of experiencing a negative return (a return below 0%) within its 95% range.
   D. The 68% range of Fund X is wider than the 68% range of Fund Y.

8. Given an investment with a mean return of 9.2% and a standard deviation of 7.8%. What is the analytical implication of the 68% probability range? (1.25 marks)

   A. The investor can be 68% certain they will not lose money.
   B. There is a 68% chance the investment's actual return in a given year will fall between 1.4% and 17.0%.
   C. The investment will return exactly 1.4% or 17.0% in 68% of all cases.
   D. There is a 32% chance (100% - 68%) that the return will be 0%.

9. For Projects A and B, the Payback Period criterion ranks Project A as superior (3 years) and rejects Project B (3 years, 4 months). However, the NPV criterion ranks Project B as far superior (NPV of 30,200) to Project A (NPV of 2,460). What is the primary analytical reason for this conflict? (1.25 marks)

   A. The NPV calculation used an incorrect discount rate of 10%.
   B. The Payback Period ignores all profitable cash flows that occur after the payback period (like B's large inflows in years 4 and 5) and ignores the time value of money, both of which NPV includes.
   C. The Payback Period is more accurate because Project B's cash flows are too uncertain.
   D. The NPV for Project A is barely positive, indicating it is too risky, which the Payback Period correctly identified.

10. For Project A, the NPV is positive (RM 2,460) at a 10% discount rate, but becomes negative (-RM 7,508) at a 12% rate. What does this analysis imply? (1.25 marks)

    A. The project is only viable if the investor's RRR is 10% or less.
    B. The project is non-viable at any discount rate.
    C. The project's true projected return (its IRR) must be somewhere between 10% and 12%.
    D. A calculation error must have occurred, as NPV cannot become negative.

11. A company reports RM600 million in sales, but RM200 million is still uncollected from customers. It also incurred RM500 million in expenses, but has not yet paid RM50 million of that amount. Based on the Accrual Concept, what is the company's Net Profit? (1.25 marks)

    A. (RM50 million) loss
    B. RM50 million profit
    C. RM100 million profit
    D. RM150 million profit

12. During inflation (rising prices), the FIFO inventory method will provide a higher profit. What is the analytical reason for this? (1.25 marks)

    A. FIFO assumes the cheaper, older inventory is sold first, matching lower costs against higher sales prices, thus increasing gross profit.
    B. FIFO assumes the more expensive, recent inventory is sold first, which lowers the gross profit.
    C. FIFO is not used in Malaysia, so the profit calculation is only theoretical.
    D. FIFO and LIFO produce the same profit, but weighted average is different.

13. A company's gold inventory, purchased for RM50 million, appreciates in value to RM65 million by year-end. Conversely, its trade debtors, valued at RM20 million, include a customer who is likely to go bankrupt, making RM5 million of that debt "probable" to be lost. According to the Prudence Concept, how should these items be recorded? (1.25 marks)

    A. Record the RM15 million gain on gold and the RM5 million loss on debtors, resulting in a net RM10 million gain.
    B. Do not record the RM15 million gain on gold, but do record the probable RM5 million loss on debtors.
    C. Record both the RM15 million gain and the RM5 million probable loss in the "Notes to the Account" only.
    D. Record neither the gain nor the probable loss, as neither has been materialized.

14. An analyst reviewing an annual report sees the auditor's report states: "*In our opinion, because of... the accounts do not give a true and fair view of the financial position of the company...*". How should the analyst interpret this finding? (1.25 marks)

    A. This is a Disclaimer of Opinion, meaning the auditor could not gather enough evidence.
    B. This is a Qualified Account, meaning there is a minor, specific disagreement.
    C. This is an Adverse Opinion, which is the most severe finding, indicating the statements are misleading.
    D. This is an Unqualified Account, meaning the accounts are reliable and "true and fair".

15. A holding company provides a corporate guarantee for a RM100 million loan taken by its subsidiary. The subsidiary is financially healthy and expected to repay the loan. Based on this, how should this guarantee be primarily categorized in the holding company's financial statements? (1.25 marks)

    A. As a Non-Current Asset, because it's an investment in the subsidiary.
    B. As a Long-Term Liability, because the holding company owes the money.
    C. As a Contingent Liability, disclosed in the notes, because it is not a real liability unless the subsidiary defaults.
    D. It should not be mentioned, as the subsidiary is expected to pay.

16. A company's Cash Flow Statement shows a large negative cash flow from Investing Activities and a large positive cash flow from Financing Activities. Based on this, what is the most likely cause? (1.25 marks)

    A. The company sold old machinery (Investing) and used the cash to pay dividends (Financing).
    B. The company collected a lot from customers (Operating) and put it in the bank (Investing).
    C. The company paid a large dividend (Financing) and bought a new factory (Investing).
    D. The company purchased new, expensive fixed assets (Investing) and raised money by issuing new shares or taking new loans (Financing).

17. A technology company has been operating for two years and is growing rapidly, but it has not yet achieved profitability. The company wishes to list on Bursa Malaysia to raise funds. Based on the listing requirements, what is the most appropriate market for this company to analyze? (1.25 marks)

    A. The Main Market, because it has a high market capitalization.
    B. The LEAP Market, because it is the only market for technology stocks.
    C. The ACE Market, because it has no minimum operating track record or profit requirement.
    D. The Main Market, because it has generated operating revenue for at least one year.

18. An investor notices that "Company XYZ 'A' Shares" are trading at a lower price than "Company XYZ Ordinary Shares." What is the most likely reason for this price difference? (1.25 marks)

    A. The 'A' Shares have a higher par value than the Ordinary Shares.
    B. The 'A' Shares are new shares that are not entitled to an upcoming dividend payment, making them temporarily less valuable.
    C. The 'A' Shares carry preferential voting rights, which makes them less desirable to the public.
    D. The 'A' Shares are part of a hostile takeover bid.

19. What is the fundamental difference between a Company Warrant and a Structured Warrant regarding their impact on the company? (1.25 marks)

    A. A Company Warrant is issued by a third party, while a Structured Warrant is issued by the company itself.
    B. A Company Warrant gives the right to sell, while a Structured Warrant gives the right to buy.
    C. If a Company Warrant is exercised, the company issues new shares and raises new capital; a Structured Warrant is a 3rd-party instrument that does not involve or dilute the company.
    D. A Company Warrant tracks an index, while a Structured Warrant tracks a single share.

20. Analyze the difference between REITs and unit trust funds. Why does the liquidity risk of REITs is "relatively higher" than that of unit trust funds? (1.25 marks)

    A. Because REITs must distribute 100% of their income, leaving them with no cash reserves.
    B. Because unit trust fund managers undertake to repurchase the units, while a REIT investor must find a buyer on the Bursa Malaysia exchange.
    C. Because REITs only invest in property, which is less liquid than the shares a unit trust holds.
    D. Because unit trust funds are traded on the Main Market, while REITs are on the ACE Market.

21. A company has very stable, high cash flows, but its accounting profit is low due to high non-cash depreciation charges on its equipment. Why might a Business Trust structure be more advantageous for this company than a standard company structure? (1.25 marks)

    A. Because a Business Trust is not required to have a trustee or a trust deed.
    B. Because a Business Trust can pay distributions out of its stable cash flow, without being constrained by its lower accounting profit.
    C. Because a Business Trust allows it to issue Stapled Securities.
    D. Because a Business Trust pays a lower tax rate than a standard company.

22. A client places an order to buy 1,000 shares of Company A at RM2.50. The WinSCORE system finds a matching sell order for 1,000 shares at RM2.48. At what price will the transaction be executed? (1.25 marks)

    A. RM2.50, the buyer's bid price.
    B. RM2.49, the average of the two prices.
    C. RM2.48, because the security is purchased from the "lowest offeror".
    D. The trade will not be matched because the prices are different.

23. An investor achieves a return significantly higher than the KLCI average (e.g., 15% vs 6.81%). Analyze how this is possible. (1.25 marks)

    A. The KLCI calculation includes losing stocks, which the investor avoided.
    B. The investor must have used margin financing, amplifying their gains.
    C. The KLCI is only an average; individual shares within the market can perform much better (or worse) than the index, and skillful selection can yield higher returns.
    D. The investor focused only on blue-chip stocks, which always outperform the market.

24. Someone warns you that investing in shares using a margin account can lead to losses exceeding the original capital. Analyze how this occurs. (1.25 marks)

    A. Margin accounts charge excessively high interest rates that erode capital.
    B. Brokers can sell margined shares without the investor's permission.
    C. If the value of shares purchased with borrowed funds drops significantly, the loss can exceed the investor's initial equity, leaving them indebted to the broker.
    D. Margin accounts require investors to buy riskier penny stocks.

25. Compare the Top-down and Bottom-up investment approaches. What is the fundamental difference in their starting point for analysis? (1.25 marks)

    A. Top-down starts with global economic trends, while Bottom-up starts with national trends.
    B. Top-down focuses on technical analysis first, while Bottom-up focuses on fundamentals.
    C. Bottom-up starts by analyzing individual companies based on their specific merits, while Top-down starts by assessing the overall economy and then identifying promising sectors within it.
    D. Bottom-up prioritizes dividend yield, while Top-down prioritizes P/E ratios.

26. According to your analysis, what is the primary reason the relationship between inflation and share prices is often negative? (1.25 marks)

    A. Higher inflation reduces consumer spending, directly hurting company sales.
    B. Inflationary pressure often leads to higher interest rates, which increases borrowing costs for companies and reduces their earnings.
    C. Companies cannot raise their prices fast enough to keep up with inflation.
    D. The Consumer Price Index (CPI) is inversely correlated with the stock market index.

27. Analyze the Zero Growth Dividend Discount Model (Value = Annual Dividend / Required Rate of Return). What type of company's shares would this model be most appropriate for valuing? (1.25 marks)

    A. A rapidly growing technology startup reinvesting all its profits.
    B. A company experiencing temporary losses but expected to recover strongly.
    C. A very mature, stable company paying a consistent dividend amount year after year with little expected change.
    D. A company whose dividend fluctuates significantly with economic cycles.

28. How does the fundamental assumption of technical analysis regarding past price movements contradict the Efficient Market Hypothesis (EMH) based on your analysis? (1.25 marks)

    A. Technical analysis assumes markets are inefficient, while EMH assumes they are perfectly efficient in all forms.
    B. Technical analysis focuses on company fundamentals, which EMH ignores.
    C. Technical analysis believes past price patterns predict future movements, directly conflicting with the weak form of EMH which states historical information cannot yield excess returns.
    D. EMH relies on charting, while technical analysis relies on fundamental data.

29. A technical analyst observes that trading volume is increasing significantly while the market index is consistently declining. Based on your interpretation of market volume, what conclusion should the analyst draw? (1.25 marks)

    A. The market is strong because high volume indicates strong investor interest.
    B. The market is weak because volume is rising during a market decline, indicating strong selling pressure.
    C. The market is strong because prices and volume are moving in opposite directions.
    D. The market direction cannot be determined from volume alone.

30. Analyze the "Contrary-Opinion Rule" regarding mutual fund cash positions. Why do technicians believe a high cash level in mutual funds is a positive market indicator? (1.25 marks)

    A. Because it shows fund managers are wisely preserving capital in a declining market.
    B. Because it suggests fund managers are bearish, and according to contrary opinion, they are likely wrong, meaning the market is poised to rise. It also represents potential buying power.
    C. Because high cash levels mean the funds can pay out higher dividends to unit holders.
    D. Because it indicates unit holders are withdrawing money, signalling a market bottom.

31. What is the core analytical difference between how a technical analyst and a fundamental analyst would evaluate a company's upcoming earnings announcement? (1.25 marks)

    A. The fundamental analyst ignores earnings, focusing only on price charts.
    B. The technical analyst believes the market price has already factored in the likely earnings before the announcement, based on prior price and volume action, while the fundamental analyst studies the company's financials to predict the earnings impact.
    C. Both analysts wait for the announcement and then analyze the market's reaction.
    D. The technical analyst focuses on the CEO's statements, while the fundamental analyst looks at the balance sheet.

32. The Dow Theory identifies primary, intermediate, and short-term trends. Why does the theory primarily focus on the "primary trend"? (1.25 marks)

    A. Because short-term trends are too difficult to predict using charts.
    B. Because intermediate trends are heavily influenced by irrational factors.
    C. Because the primary trend represents the long-term direction (like a tide) of the market, and the theory aims to capture major market moves while ignoring minor fluctuations (ripples).
    D. Because primary trends are the only ones affected by trading volume.

PART B (60 Marks)

Answer all questions.

1. By holding all factors including the yield unchanged, the prices of Bond A and Bond B, whether selling at a discount or at a premium, will eventually revert to its par value of RM1,000. This can be seen from the table below:

Table 1: Price Path of Bonds Approaching Maturity (Par Value = RM1,000)

Year	Term-to-maturity	Bond Price A	Bond Price B
0	10	RM900.00	RM1,100.00
2	8	RM914.69	RM1,083.51
6	4	RM951.25	RM1,045.60
9	1	RM986.47	RM1,012.20
10	0	RM1,000.00	RM1,000.00

   a. Identify which bond in Table 1 (A or B) is a discount bond and which is a premium bond. (2 marks)
   b. Using the data in Table 1, analyze the relationship between a bond's price and its term-to-maturity for both Bond A and Bond B. (4 marks)
   c. Based on Table 1, analyze the implication for an investor who buys Bond B at RM1,100 and holds it until maturity. Contrast this with the outcome for an investor who buys Bond A at RM900 and holds it to maturity. (4 marks)

2. There is a call option with a premium (price) of RM500 and an exercise price of RM5,000 for a particular underlying asset. As an analyst, you have been contacted by an investor to analyse the potential profit and loss from taking a position in this option.

   a. Identify the maximum loss, maximum gain, and break-even price for both the long and short positions. (5 marks)
   b. Draw a diagram to represent your analysis in (a) above. (5 marks)

3. Over the past year, equity markets in Malaysia have experienced high volatility due to global economic uncertainties. During the same period, Malaysian bond yields have remained relatively stable, and some fixed-income funds reported better performance than equity funds.

   a. Differentiate between equity unit trusts and fixed-income unit trusts based on their investment focus. (6 marks)
   b. Analyze why fixed-income funds may sometimes outperform equity funds during certain market conditions. (4 marks)

4. A young investor is considering buying a small commercial shop-lot for rental income. However, he recently learned that shop-lots in his chosen area are taking a long time to sell, and buyers are scarce despite being in a growing township. He is unsure whether to proceed with direct ownership or consider other forms of real estate investment.

   a. Briefly infer why Real Estate Investment Trust (REIT) is more suitable than direct ownership to the young investor. (4 marks)
   b. Analyze why the shop-lot is facing saleability issues even though it is located in a new township. (3 marks)
   c. If the young investor is looking for a short and medium-term investment, determine why REIT is more suitable to him. (3 marks)

5. Haji Zamani is choosing between two portfolios, X and Y. Portfolio X shows high total return but with very volatile monthly results, while Portfolio Y shows lower returns but with lower volatility. Haji Zamani's advisor suggests using a risk-adjusted performance measure (Sharpe Ratio or Treynor Ratio) to evaluate them instead of purely comparing returns.

   a. Briefly elucidate what is meant by risk-adjusted performance. (2 marks)
   b. Analyze when the Sharpe Ratio is a more appropriate tool compared to the Treynor Ratio. (4 marks)
   c. Based on Haji Zamani's choice, ascertain which measure (Sharpe or Treynor) would better help Haji Zamani to choose between Portfolio X and Portfolio Y, and justify your reasoning. (4 marks)

6. Puan Hannah is comparing two portfolios, A and B. Portfolio A has a beta of 1.5, while Portfolio B has a beta of 0.7. During certain market period, Portfolio A outperformed Portfolio B significantly. Puan Hannah believes that Portfolio A is "definitely the better investment" because it delivers higher returns.

   a. Briefly elucidate beta in the context of portfolio risk. (2 marks)
   b. Analyze why Portfolio A outperformed Portfolio B during certain market period based on Puan Hannah's comparison. (4 marks)
   c. Criticize why Portfolio A may not always be the better investment by considering the implications of beta in different market conditions. (4 marks)

End of Question Paper