

6. PORTFOLIO THEORY

1. The expected return on securities A, B, and C are 12.2%, 14.6% and 8.6% respectively. Their standard deviations of returns are 40%, 50% and 30% respectively. The following table gives their correlation coefficients:

	A	B	C	
A		1	0.3	0.6
B	0.3		1	0.9
C	0.6	0.9		1

- (a) Estimate the expected return and risk, of
- (i) a portfolio X consisting of 50% share A, 50% share B
 - (ii) a portfolio Y consisting of 50% share B, 50% share C.
- (b) Which of the two portfolios do you prefer and why?