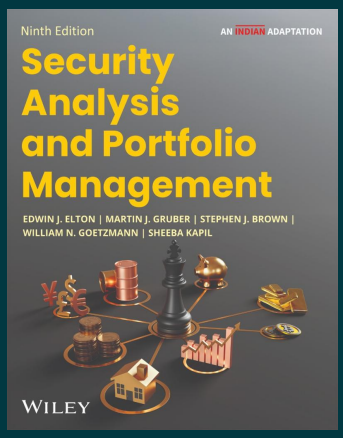
WILEY



Security Analysis and Portfolio Management, 9ed (An Indian Adaptation)

By Edwin J. Elton, Martin J. Gruber, Stephen J. Brown, William N. Goetzmann, Sheeba Kapil

Paperback 9789377067489 **₹1,199.00**

Pages: 754

Description

A globally acclaimed investment text adapted rigorously for Indian markets. Integrates Indian regulations, market structures, and contemporary data throughout. Balances strong theoretical foundations with real-world Indian case studies. Covers security analysis, portfolio theory, CAPM, APT, and derivatives end-to-end. Designed for MBA, M.Com, CFA® and FRM®-aligned finance programs. Ideal for building both conceptual clarity and practical investment insight.

About the Author

Edwin J. Elton, Martin J. Gruber, Stephen J. Brown, William N. Goetzmann, Sheeba Kapil

EDWIN J. ELTON is Nomura Professor of Finance at the Stern School of Business of New York University. He has authored or coauthored eight books and more than 100 articles. These articles have appeared in journals such as The Journal of Finance, The Review of Financial Studies, Review of Economics and Statistics, Management Science, Journal of Financial Economics, Journal of Business, Oxford Economic Papers, and Journal of Financial and Quantitative Analysis. He has been coeditor of the Journal of Finance. Professor Elton has been a member of the Board of Directors of the American Finance Association and an Associate Editor of Management Science. He is Associate Editor of Journal of Banking and Finance and Journal of Accounting Auditing and Finance. Professor Elton has served as a consultant for many major financial institutions. A compendium of articles by Professor Elton and Professor Gruber has recently been published in two volumes by MIT press. Professor Elton is a past president of the American Finance Association, a fellow of that association, and a recipient of distinguished research award by the Eastern Finance Association.

MARTIN J. GRUBER is Nomura Professor of Finance and past Chairman of the Finance Department at the Stern School of Business of New York University. He is a fellow of the American Finance Association. He has published nine books and more than 100 journal articles in journals such as The Journal of Finance, The Review of Financial Studies, Review of Economics and Statistics, Journal of Financial Economics, Journal of Business, Management Science, Journal of Financial and Quantitative Analysis, Operations Research, Oxford Economic Papers, and The Journal of Portfolio Management. He has been coeditor of the Journal of Finance. He has been President of the American Finance Association, a Director of the European Finance Association, a Director of the American Finance Association, and a Director of both the Computer Applications Committee and the Investment Technology Symposium of the New York Society of Security Analysts. He was formerly Finance Department Editor for Management Science. Professor Gruber has consulted in the areas of Investment Analysis and Portfolio Management with many major financial institutions. He is currently a director of DWS Mutual Funds, and a Director of the Diawa closed-end funds. He is formerly a director of TIAA, a director and chairman of CREF, and a director of the S. G. Cowen Mutual Funds.

STEPHEN J. BROWN is David S. Loeb Professor of Finance and Coordinator of Undergraduate Finance at the Leonard N. Stern School of Business, New York University. He has served on the Board of Directors of the American Finance Association, was founding editor of The Review of Financial Studies and is currently a member of the Board of the Society of Quantitative Analysis. He is a Managing Editor of the Journal of Financial and Quantitative Analysis and has served on the editorial boards of The Journal of Finance, Pacific-Basin Finance Journal, and other journals. He has published numerous articles and four books on finance and economics related areas. In 1996 he served on the

nominating committee for the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel. He has served as an expert witness for the U.S. Department of Justice.

WILLIAM N. GOETZMANN is Edwin J. Beinecke Professor of Finance and Management Studies at the Yale School of Management and Director, International Center for Finance at the Yale School of Management and has served on the Board of Directors of the American Finance Association. His published research topics include global investing, forecasting stock markets, selecting mutual fund managers, housing as investment, and the risk and return of art. Professor Goetzmann has a background in arts and media management. As a documentary filmmaker, he has written and coproduced programs for Nova and the American Masters series, including a profile of the artist Thomas Eakins. A former director of Denver's Museum of Western Art, Professor Goetzmann coauthored the award winning book, The West of the Imagination.

Dr Sheeba Kapil is Professor and HoD in Finance at the Indian Institute of Foreign Trade (IIFT), New Delhi,

India. With over 28 years of experience in teaching, research, academic leadership, and institutional development, doctoral supervision, curriculum innovation, and accreditation engagement. Dr Kapil has held several leadership roles including Head, Graduate Studies in Management Division, Head, International Collaboration & Capacity Development, and Head, Journal Division. Over the years, she has contributed to institutional governance through membership in the Academic Council, Finance Committee, Board of Studies, IQAC and accreditation processes, and actively involved in AACSB, AMBA, EQUIS NAAC, NBA accreditation processes, contributing to research visibility, and global academic partnerships. She has conducted faculty development programs for several leading business schools like Audencia Business School France, VISAS Vietnam, IFM Tanzania etc.

Table of Contents

UNIT 1 INTRODUCTION 1
Chapter 1 Introduction 2
Outline of the Book 2
Indian Economy Status and Outlook 3
India’s Financial Markets 4
The Economic Theory of Choice:
An Illustration Under Certainty 7
Conclusion 11
Multiple Assets and Risk 11
Questions and Problems 12
Bibliography 13
Chapter 2 Understanding Financial Market 14
Types of Marketable Financial Securities 14
The Return Characteristics of Alternative
Security Types 22
Stock Market Indexes 24
Indian Stock Market Indexes 25
Bond Market Indexes 26
Conclusion 27
Questions and Problems 27
Chapter 3 Financial Markets and Trading 29
Trading Mechanics 29
Margin 32
Markets 36
Trade Types and Costs 43
Conclusion 44
Questions and Problems 44

UNIT 2 SECURITY ANALYSIS 47

Chapter 4 Efficient Markets 48

Early Development 48

The Next Stages of Theory 49

Recent Theory 51
Some Background 52
Testing the EMH 53
Tests of Return Predictability 54
Tests on Prices and Returns 54
Monthly Patterns 56
Announcement and Price Return 68
Methodology of Event Studies 68
Strong-Form Efficiency 73
Market Rationality 76
Conclusion 78
Questions and Problems 78
Bibliography 78

Chapter 5 Behavioral Finance, Investor Decision
Making, and Asset Prices 90
Prospect Theory and Decision Making
Under Uncertainty 90
Biases From Laboratory Experiments 93
Summary of Investor Behavior 96
Behavioral Finance and Asset Pricing Theory 96
Bibliography 103

Chapter 6 Company Analysis–Earning and Growth 107
The Elusive Number Called Earnings 107
The Importance of Earnings 110
Characteristics of Earnings and
Earnings Forecasts 113
Conclusion 121
Questions and Problems 121
Bibliography 121

Chapter 7 Equity Research and Valuation Process 124
Discounted Cash Flow Models 125
Constant Growth Model 127
Cross-Sectional Regression Analysis 136
An Ongoing System 140
Conclusion 145
Questions and Problems 145
Bibliography 149

Chapter 8 Evaluation of Security Analysis 153
Why the Emphasis on Earnings? 153
The Evaluation of Earnings Forecasts 155
Evaluating the Valuation Process 162
Conclusion 164
Questions and Problems 165
Bibliography 165
Chapter 9 Interest Rate Theory and the Pricing of Bonds 167
An Introduction to Debt Securities 168
The Many Definitions of Rates 170
Bond Prices and Spot Rates 178
Determining Spot Rates 179
The Determinants of Bond Prices 181
Collateral Mortgage Obligations 197
The Financial Crisis of 2008 198
Conclusion 199
APPENDIX A Special Considerations in
Bond Pricing 199
APPENDIX B Estimating Spot Rates 200
APPENDIX C Calculating Bond Equivalent Yield
and Effective Annual Yield 202
Questions and Problems 202
Bibliography 205
Chapter 10 The Management of Bond Portfolios 209
Duration 209
Protecting Against Term Structure Shifts 217
Bond Portfolio Management of Yearly Returns 221
Swaps 229
APPENDIX A Duration Measures 231
APPENDIX B Exact Matching Programs 235
APPENDIX C Bond-Swapping Techniques 237
APPENDIX D Convexity 238
Questions and Problems 239
Bibliography 241
UNIT 3 PORTFOLIO ANALYSIS 245
PART I MEAN VARIANCE PORTFOLIO THEORY 247
Chapter 11 Risk and Return 248

Determining the Average Outcome 249
A Measure of Dispersion 250
Variance of Combinations of Assets 253
Characteristics of Portfolios in General 256
Two Concluding Examples 265
Domestic Foreign Allocation 267
Conclusion 268
Questions and Problems 268
Bibliography 271

Chapter 12 Delineating Efficient Portfolios 273
Combinations of Two Risky Assets Revisited: Short Sales Not Allowed 273
The Shape of the Portfolio Possibilities Curve 283
The Efficient Frontier with Riskless Lending and Borrowing 290
Examples and Applications 294
Three Examples 297
Conclusion 300
Questions and Problems 301
Bibliography 303

Chapter 13 Techniques for Calculating the Efficient Frontier 305
Short Sales Allowed with Riskless Lending and Borrowing 305
Short Sales Allowed: No Riskless Lending and Borrowing 310
Riskless Lending and Borrowing with Short Sales Not Allowed 311
No Short Selling and No Riskless Lending and Borrowing 312
The Incorporation of Additional Constraints 312
An Example 313
Conclusion 316
APPENDIX A An Alternative Definition of Short Sales 316
APPENDIX B Determining the Derivative 317
APPENDIX C Solving Systems of Simultaneous Equations 321
APPENDIX D A General Solution 324
APPENDIX E Quadratic Programming and Kuhn–Tucker Conditions 329
Questions and Problems 331
Bibliography 334

PART 2 THE PORTFOLIO SELECTION PROCESS 337
Chapter 14 The Correlation Structure of Security Returns—The Single-Index Model 338
The Inputs to Portfolio Analysis 339
Single-Index Models: An Overview 340

Characteristics of the Single-Index Model 345
Estimating Beta 347
The Market Model 360
An Example 360
Questions and Problems 362
Bibliography 365
Chapter 15 The Correlation Structure of Security Returns—Multi-Index Models and Grouping Techniques 369
Multi-Index Models 370
Average Correlation Models 375
Mixed Models 376
Fundamental Multi-Index Models 376
Conclusion 382
APPENDIX A Procedure For Reducing Any Multi-Index Model to a Multi-Index Model with Orthogonal Indexes 382
APPENDIX B Mean Return, Variance, and Covariance of a Multi-Index Model 383
Questions and Problems 385
Bibliography 388
Chapter 16 Simple Techniques for Determining the Efficient Frontier 391
The Single-Index Model 392
Security Selection with a Purchasable Index 403
The Constant Correlation Model 404
Other Return Structures 407
An Example 408
Conclusion 409
APPENDIX A Single-Index Model—Short Sales Allowed 409
APPENDIX B Constant Correlation Coefficient— Short Sales Allowed 412
APPENDIX C Single-Index Model—Short Sales Not Allowed 413
APPENDIX D Constant Correlation Coefficient— Short Sales Not Allowed 415
APPENDIX E Single-Index Model, Short Sales Allowed, and a Market Asset 416
Questions and Problems 417
Bibliography 419
PART 3 SELECTING THE OPTIMUM PORTFOLIO 421
Chapter 17 Estimating Expected Returns 422
Aggregate Asset Allocation 422
Forecasting Individual Security Returns 428
Portfolio Analysis with Discrete Data 431
APPENDIX The Ross Recovery Theorem—A New Approach to Using Market Data to Calculate Expected Return 432
Questions and Problems 435

Bibliography 436

Chapter 18 How to Select among the Portfolios in the Opportunity Set 438

Choosing Directly 438

An Introduction to Preference Functions 439

Risk Tolerance Functions 442

Safety First 444

Maximizing the Geometric Mean Return 449

Value at Risk (VaR) 452

Utility and the Equity Risk Premium 453

Optimal Investment Strategies with Investor Liabilities 454

Liabilities and Safety-First Portfolio Selection 458

Simulations in Portfolio Choice 458

Conclusion 465

APPENDIX The Economic Properties of Utility Functions 465

Relative Risk Aversion and Wealth 466

Questions and Problems 467

Bibliography 470

Chapter 19 Option Pricing Theory 473

Types of Options 473

Some Basic Characteristics of Option Values 479

Valuation Models 483

Artificial Or Homemade Options 494

Uses of Options 495

Conclusion 498

APPENDIX A Derivation of the Binomial Formula 498

APPENDIX B Derivation of the Black–Scholes Formula 501

Questions and Problems 503

Bibliography 505

PART 4 WIDENING THE SELECTION UNIVERSE 511

Chapter 20 The Valuation and Uses of Financial Futures 513

Description of Financial Futures 513

Valuation of Financial Futures 518

The Uses of Financial Futures 523

Nonfinancial Futures and Commodity Funds 526

Questions and Problems 527

Bibliography 529

Chapter 21 International Diversification 531

Historical Background 531
Calculating the Return on Foreign Investments 532
The Risk of Foreign Securities 536
Market Integration 543
Returns From International Diversification 543
The Effect of Exchange Risk 545
Return Expectations and Portfolio Performance 546
Emerging Markets 548
Other Evidence on Internationally Diversified Portfolios 550
Sovereign Funds 556
Models For Managing International Portfolios 557
Conclusion 560
Questions and Problems 560
Bibliography 563
Chapter 22 Capital Asset Pricing Model 568
The Assumptions Underlying the Standard Capital Asset Pricing Model (CAPM) 568
The CAPM 569
Prices and the CAPM 578
Conclusion 580
APPENDIX Appropriateness of the Single-Period
Asset Pricing Model 581
Questions and Problems 585
Bibliography 586
UNIT 4 MODELS OF EQUILIBRIUM IN THE CAPITAL MARKET 589
Chapter 23 Alternative Forms of Capital Asset Pricing Models 590
Short Sales Disallowed 591
Modifications of Riskless Lending and Borrowing 591
Personal Taxes 601
Nonmarketable Assets 602
Heterogeneous Expectations 604
Nonprice-Taking Behavior 605
Multiperiod CAPM 605
The Multi-Beta CAPM 606
Consumption CAPM 606
Conclusion 608
APPENDIX Derivation of the General
Equilibrium with Taxes 608
Questions and Problems 611

Bibliography 612

Chapter 24 Empirical Tests of Equilibrium Models 618

The Models—Ex Ante Expectations and Ex Post Tests 618

Empirical Tests of the CAPM 620

Testing Some Alternative Forms of the

CAPM Model 630

Testing the Posttax Form of the CAPM Model 630

Some Reservations About Traditional Tests of

General Equilibrium Relationships and Some

New Research 633

Conclusion 636

Questions and Problems 636

Bibliography 637

Chapter 25 The Arbitrage Pricing Model APT— A Multifactor Approach to Explaining Asset Prices 641

APT—What Is It? 641

Estimating and Testing APT 646

APT and CAPM 655

Recapitulation 658

Term Structure Factor 667

Credit Risk Factor 667

Foreign Exchange [Fx] Carry 668

Value Factor 668

Size Factor 668

Momentum Factor 668

Volatility Factor 669

Liquidity Factor 669

Inflation Factor 670

Gdp Factor 670

Equity Risk Premium 670

Limitations of Factor Investing 671

Factor Investing Summary 671

Conclusion 672

APPENDIX A A Simple Example of

Factor Analysis 672

APPENDIX B Specification of the APT with an Unobserved Market Factor 673

Questions and Problems 675

Bibliography 677

Chapter 26 Evaluation of Portfolio Performance 684
Evaluation Techniques 684
A Manipulation-Proof Performance Measure 693
Timing 694
Holding Measures of Timing 698
Multi-Index Models and Performance Measurement 699
Using Holdings Data to Measure Performance Directly 702
Time-Varying Betas 703
Conditional Models of Performance Measurement, Bayesian Analysis, and Stochastic Discount Factors 703
Bayesian Analysis 704
Stochastic Discount Factors 704
What’s a Researcher to Do? 704
Measuring the Performance of Active Bond Funds 705
The Performance of Actively Managed Mutual Funds 705
How Have Mutual Funds Done? 706
The Persistence of Performance 707
Persistence 707
APPENDIX The Use of APT Models to Evaluate and Diagnose Performance 712
Questions and Problems 716
Bibliography 716
Chapter 27 Portfolio Management Revisited 723
Managing Stock Portfolios 723
Active Management 727
Passive Vs. Active 728
International Diversification 728
Bond Management 729
Bond and Stock Investment with a Liability Stream 731
Bibliography 736

To purchase this product, please visit:
https://www.wileyindia.com/security-analysis-and-portfolio-management-9ed-an-indian-adaptation.html

Scan to buy