

FN 201 Business Finance
Lecture Note 7 Homework

Mr. Benny has a portfolio investment with current expected return at 8.5% and variance at 110 (or 10.4881 standard deviation). He was suggested by two trading companies to include one more stock into his portfolio - Company A introduced stock X, while Company B suggested stock Y. Below table provides additional information on stock X and Y, and the correlation with Benny's current portfolio.

	Company A: Stock X	Company B: Stock Y
Expected Return	10%	15%
Variance	140	180
Standard Deviation	11.8322	13.4164

Correlation between Benny's current portfolio return and stock X is 0.75, while the correlation with stock Y is 0.50.

Due to budget constraint, Benny can afford either stock X or stock Y. His new portfolio would have 40% weighting on new stock and the other 60% is allocated for the combination of old stocks. As a financial planner, please help Benny to decide which stock to be chosen into his current portfolio investment. Note that only one stock will be selected.