Project 2

Portfolio Analysis, CML, SML, and Cost of Capital: XYZ Company Vs. JNJ

A. Introduction

B. Portfolio Analysis of JNJ, XYZ Company, and market rate of return

 1. Mean, variance, skewness, and kurtosis

 2. 3 by 3 variance covariance metrics

 3. Two alternative optimal portfolios in terms of two securities using the methods below.

a. Calculate optimal portfolio in terms of minimum-variance approach
b. Calculate optimal portfolio in terms of maximizing the Sharpe performance measure

C. CML, SML, Cost of Capital

 1. Use regression analysis to calculate Beta coefficients for JNJ and XYZ Company

 2. Calculate the cost of capital for both JNJ and XYZ Company
 a. DCF approach
 b. CAPM approach
 c. Chase Cost of Capital
 i. Unleveraged Cost of Equity (Equation 12.46 on page 563)
 ii. The Firm's Cost of Total Capital (Equation 12.47 on page 563)

D. Sharpe, Treynor, and Jensen Performance Measures
The Sharpe measure can be found on page 351. The Treynor measure is similar to the Sharpe measure except the denominator is beta coefficient instead of standard deviation. Jensen measure is equal to ($\overbar{R}\_{i}- \overbar{R}\_{f})-β\_{i}(\overbar{R}\_{m}-\overbar{R}\_{f})$

Calculate 3 alternative performance measures for XYZ Company and JNJ, then compare the performance among XYZ Company, JNJ, and the market portfolio.

E. Summary and Concluding Remarks

References