2. Portfolio expected return and risk

An analyst is examining the following two-stock portfolio:

Stock	Portfolio Weight	Expected Return	Standard Deviation
Stock X	0.40	18.0%	35.0%
Stock Y	0.60	11.0%	35.0%

What is the portfolio's expected return?

- ○ 15.20%
- ◉ 13.45%
- ○ 13.80%
- ○ 12.75%
- ○ 13.10%

Suppose Stocks X and Y are perfectly, positively correlated (r = 1). What is the portfolio's standard deviation of returns?

- ○ 0%
- ○ 50%
- ○ 70%
- ◉ 20%
- ○ 35%

If you added randomly selected stocks to the portfolio, the portfolio's standard deviation would

increase gradually. ▼

If a portfolio has no firm-specific risk remaining, which of the following is the best estimate of the standard deviation of returns?

- ◉ 0%
- ○ 70%
- ○ 50%
- ○ 20%
- ○ 35%

The tradeoff between risk and return is a cornerstone concept in finance. If a security offers a higher expected return, it must have higher risk. Look at the two stocks described in this problem. They have the same risk, but one stock has a higher expected return. Does this example contradict the tradeoff between risk and return?

- ○ No
- ◉ Yes

❖ Graded

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