

**Chapter Assignments:**

**Required:** See below (5 points)

**Due: Tue/Thu May 8<sup>th</sup>; Online: May 10<sup>th</sup>**

**Chapter Sections:**

Expected Returns and Variances  
Portfolios  
Diversification and Portfolio Risk  
Correlation and Diversification  
The Markowitz Efficient Frontier

**Chapter Terms:**

diversification  
risk  
risk *versus* return  
variance *and* standard deviation  
correlation  
correlation coefficient  
positive correlation – correlation coefficient = 1.0  
negative correlation – correlation coefficient = -1.0  
neutral correlation (a.k.a. no correlation) – correlation coefficient = 0.0  
asset allocation  
rebalancing  
dollar cost averaging  
mutual funds and diversification  
*other measures of risk:*  
alpha – the higher the better, greater than 1.0 is good  
beta – 1.0 = same level of risk as the market, higher than 1.0 means riskier than market, less than 1.0 means less riskier than market  
r-squared – the closer to 1.0, the more *beta* can be trusted  
Sharpe ratio – the higher the better  
Treydor ratio – the higher the better  
Morningstar risk rating

**Assignment:**

Go to morningstar.com or finance.yahoo.com (or whichever information service you prefer) and lookup the *10-year standard deviation* for at least five mutual funds. Choose your mutual funds by visiting mutual fund company web sites, the funds available in your 401(k) at work, or any other method you choose. Also report the 10-year *alpha*, *beta*, and *R-squared* (correlation coefficient) values. For your own enrichment, research the definitions of alpha and beta. What are alpha and beta and what are they designed to describe about a mutual fund? (You could use www.investopedia.com to research the definitions of alpha and beta.) Did the funds with the lowest risk ratings have low, moderate, or high returns? Morningstar now reports the upside / downside capture ratios. Research what these numbers signify and whether you as an investor are more concerned with the upside or the downside capture.

Here are some of my favorite mutual funds: awshx, newfx, cwgix, agthx, anpwx, ancfx, caibx, aivsx

Here are some other mutual funds web sites:

www.dodgeandcox.com, www.vanguard.com, www.fidelity.com, www.troweprice.com, www.leggmason.com,  
www.oppenheimerfunds.com, www.tiaa-cref.org, www.franklintempleton.com, www.putnam.com,  
www.pimco.com, www.mfs.com, www.blackrock.com, www.janus.com, www.dreyfus.com

NOTE: Careful! Morningstar will try to get you to enroll in their premium fee-based service. Get it free at the library.