

Assignment Details

This assignment involves the analysis of fifty balanced funds. Data on the average annual performance of these fifty balanced funds over the period from 1995-2014 is provided. For each fund, this data includes: the average excess return of the fund, its Sharpe Ratio, CAPM regression results for the fund, and 3-Factor Model regression results for the fund. Each balanced fund invests in both U.S. stocks and Treasury Bills, but they have different investment styles. During the course of this analysis, you will explore differences between the CAPM and 3-Factor Model and think about how to identify a skilled fund manager. All of this data on the fifty balanced funds is contained in the spreadsheet `BalancedFunds_1995_2014.xlsx`, which you will need to use for this assignment.

Assignment 4 is also described in Video Lecture 3-7.1 contained in Lesson 3-7. I strongly recommend that you watch this video before starting the assignment. Please note that for the assignment to fit into the Coursera standard format, I had to make some very minor adjustments relative to the format contained in the lecture video, such as making sub-questions out of the original questions (e.g. Question 1 has now been split into 1A, 1B, etc. components). Nothing important has changed!

Assignment 4 is worth 80 points total. You need to score at least 80% (64 out of 80 points) to pass this assignment.

Questions

Question 1

- 1A: For Fund #7, explain why there is a substantial difference between the ALPHA from the CAPM and the ALPHA from the 3-Factor Model. (12 points)
- 1B: For Fund #9, explain why there is a substantial difference between the ALPHA from the CAPM and the ALPHA from the 3-Factor Model. (12 points)
- 1C: For Fund #26, explain why there is a substantial difference between the ALPHA from the CAPM and the ALPHA from the 3-Factor Model. (12 points)
- 1D: For Fund #27, explain why there is a substantial difference between the ALPHA from the CAPM and the ALPHA from the 3-Factor Model. (12 points)
- 1E: For Fund #31, explain why there is a substantial difference between the ALPHA from the CAPM and the ALPHA from the 3-Factor Model. (12 points)
- 1F: For Fund #50, explain why there is a substantial difference between the ALPHA from the CAPM and the ALPHA from the 3-Factor Model. (12 points)

Question 2: Which of the fifty funds would you MOST like to invest in going forward? Why? (4 points)

Question 3: Which of the fifty funds would you LEAST like to invest in going forward? Why? (4 points)