Review Questions: Portfolio Risk and Return

1. Suppose you are looking at forming a portfolio with 60% Pfizer stock and 40% Wal-Mart Stock. The historical returns of the stock are below:

	1	2	3	4	5
Pfizer	14%	8%	-16%	31%	23%
Wal-Mart	1%	-3%	13%	19%	7%

   Historically, the correlation of these two stocks is 0.56. What is the expected return and standard deviation of this portfolio?

2. You want to calculate the expected return on a share of Alaska Airlines stock. Their equity beta is 1.87. The risk-free return is 2%, and the expected return on the market is 9%. Use the CAPM to find the expected return for the stock.