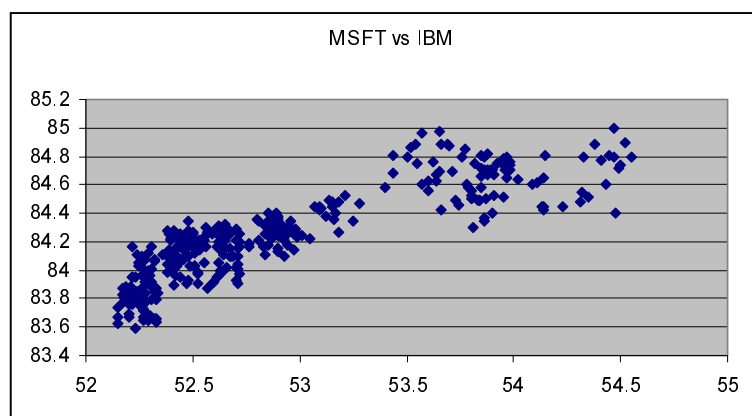


Homework 5
(Return date: 12.2.2003)

Correlation Analysis

The purpose of this exercise is to find dependencies between various stocks quoted at the New York Stock Exchange (NYSE). Download the data set containing stock prices of Microsoft, IBM, AOL and S&P companies.

- a) Plot scatter-plots for stock prices for all possible pairs of companies, i.e. MSFT vs. IBM, MSFT vs. AOL, MSFT vs. S&P, IBM vs. AOL, ..., etc. Find corresponding correlation coefficients.
- b) You are planning to construct a low-risk portfolio from these four stocks. Is it reasonable to keep stocks with high correlation in the portfolio? Which stocks you would prefer to include in your portfolio?



The data set is available at:

<http://www.iam.fmph.uniba.sk/institute/sevcovic/studium/cityu/>