Security Evaluation And Portfolio Analysis

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Write short note on Bond Market Line Evaluation.

Ans. Bond Market Line: a measure of risk such as beta coefficient for equities. Difficult to achieve due to bond maturity and coupon effect on volatility of prices. Composite risk measure is the bond’s duration. Duration replaces beta as risk measure in a bond market line. The Bond Market Line differs from the SML in the selection of projects.

Figure S.1 summarizes the results of the case study evaluation of 20 sample ONR applied research projects. It plots the product of the mean values, as determined by the expert panel, of capability and performance potential versus the mean values of transition probability. The expected value for each project is shown in parentheses next to its data point. Contours of equal expected value are shown as a percentage of the maximum expected value. This method of combining the components of expected value provides a convenient way to identify R&D projects.