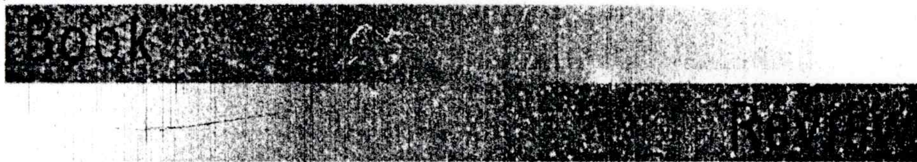

Book : **Quantitative Methods for Valuation of Financial Assets**
By A.S. Ramasastri
Publishers : Sage Publications India Pvt. Ltd., M-32, Market, Greater Kailash-I, New Delhi - 110 048
Pages : 199
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Shri Ramasastri, who has considerable experience in teaching the quantitative methods for risk management at the training college of the Reserve Bank of India, has chosen the question and answer route for analysing the methods of valuation of financial assets. Instead of adopting the usual narrative style, he has selected 100 questions to cover the whole gamut of quantitative assessment. Though he has tried to make it simple, the mathematical equations used are a bit difficult for an average banker to understand without any guidance.

The first four chapters deal with four of the financial assets namely, bonds, equity, portfolios and options. In each of the chapter, some basic ideas of these four assets are given through a few preliminary questions, as an introduction. The quantitative background of the valuation method is provided at the end of each of the chapter.

Analysing the bonds, the author cautions the reader about riding the yield curve, introduces the horizon analysis and explains the process of immunisation of the bond portfolio. In the next chapter on equity, there is an interesting question – Are Indian stock markets random walks? He then explains, 'A random walk is often compared with a drunkard's walk. Leaving the bar, the drunkard moves randomly. If she(?) continues to walk indefinitely, she will eventually drift farther and farther away from the bar'. It is somewhat strange that he has used the feminine gender while talking about the drunkard. Looking at the way the share market has been behaving in the recent years, one is bound to get an impression that the share prices are not amenable to any prediction based on rational thinking. While the equity culture is growing very fast in India and IT being effectively adopted by the share market, the unpredictability of the share prices continues to baffle the layman. One notable omission in this chapter is the question of market capitalisation.

Optimization of portfolios, the measurement of their performance and their diversification for reducing the risk are some of the issues discussed in the third chapter. The statistical measures like the correlation coefficient and the regression coefficient are also explained in this chapter, perhaps to guide the reader. The more complicated transactions like the options are examined in greater detail in the fourth chapter. This has become more technical than the other chapters.

The last chapter is an introduction to the spreadsheet, the software package, which solves the optimisation problems besides facilitating many other calculations. The reader is introduced to the computer, step by step, assuming that he is familiar with PC.

This book is a notable addition to the literature on the quantitative valuation of financial assets. But familiarity with the mathematical equations is necessary to understand it.

Reviewed by **Dr. N.K. Thingalaya**
former Chairman & Managing Director,
Syndicate Bank.