RISK AND RETURN IN PORTFOLIO MANAGEMENT

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ABSTRACT

This paper presents the clear picture of portfolio analyses and security analysis in the common business senior. Portfolio is a involves in the form of service of the investor (customer) it detail discuss about what assets to include in the business and what assets to purchases, how many to purchase them, and what assets to divest, these framing is known as portfolio analysis. In portfolio analysis involves the goals of investor risk and returns, services, decisions, portfolio management is all about strengths, weaknesses, opportunities and threats in the choice of debt vs. equity, domestic vs. international, growth vs. safety and numerous other trade.

Keywords: Portfolio Process, Portfolio Decision, Formulation Of Portfolio Strategy, Active Portfolio Strategy, Portfolio Risk And Return, Benefits Of Diversification, Assumptions.

I. INTRODUCTION

A Portfolio is a collection of investment held by an institution private individual. In building up an investment portfolio a financial institution will typically conduct its own investment analysis, whilst a private individual may make use of the services of a financial advisor or a financial institution which offers portfolio management services. Holding a portfolio is part of an investment and risk-limiting strategy called diversification. By owning several assets certain types of risk (in particular specific risk) can be reduced. The assets in the portfolio could include stocks, bonds, options, warrants, gold certificates, real estate, futures contracts, and production, facilities or any other item that is expected to retain its value.

Portfolio management involves deciding what assets to include in the portfolio, given the goals of the portfolio owner and changing economic condition. Selection involves deciding what assets to purchase, how many to purchase them, and what assets to divest, these decisions always involve some sort of performance measurement, most typically expected return on the portfolio and the risk associated with this return (i.e. the standard deviation of the return). Typically the expected returns from portfolios, comprised of different asset bundles are compared.

The unique goals and circumstances of the investor must also be considered. Some investor are more risk averse than others, mutual funds have developed particular techniques to optimize their portfolio holdings. Thus portfolio management is all about strengths, weaknesses, opportunities and threats in the choice of debt vs. equity, domestic vs. international, growth vs. safety and numerous other trade-offs encountered in the attempt to maximize return at a given appetite for risk.

II. OBJECTIVES OF THE PORTFOLIO

- To analyzing the risk and return characteristics of individual securities in the portfolio

- To identify group of security available in the market for better selection of a portfolio.
- To assist investor in making rational investment decision as to which securities to buy and sell using security market line.

III. METHODOLOGY

- Thedata which collected for research this paper collected from the secondary sources like books, magazines, newspapers, and different websites.

IV. NEEDS OF THE PORTFOLIO

In the finance field it is a common knowledge that money or finance is scarce and that investors try to maximize returns. But, the return is higher, if the risk is also higher. return and risk go together they gave a trade off. The art of investment is to see that the return is maximized with minimum of risk, which is inherit in invest. In the above discussion, we concentrated on the word "investment" and for making invest we need to make securities analysis. Combination of securities with different risk characteristics will constitute the portfolio of the investor. The portfolio is also build up of the wealth or income of the investor over a period of time. with a one eye view to suit his risk or return performance, to that portfolio analysis of the risks, that may take place in combination with other securities due to interaction among themselves impact of each one of them on others.

V. RISK

- The risk of a portfolio can be measure in various ways. The two most commonly used measures risk, variability and beta

5.1 Portfolio return and risk

Investors generally hold a portfolio of securities so, while individual return and risk are important, what material finally is the return and risk of the portfolio.

5.2 Portfolio expected return

The expected return is simply the weighted average of the expected return on the individual securities in the portfolio.

VI. PORFOLIO INVESTMENT RISK

All rational investor want a substantial return from their investment. A ability to understand, measure and properly manage investment risk is fundamental to any intelligent investor or a speculator. Frequently, the risk associated with security investment is ignored and only the rewards are emphasized. An investor difficult to obtain continuing positive results.

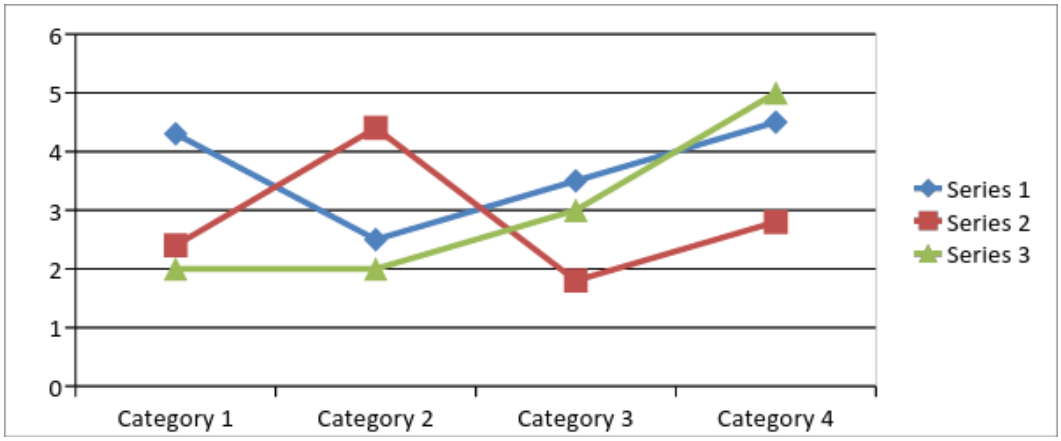
 ISBN: 978-81-932074-1-3

RETURN

All investments are characterized by the expectation of a return. In fact, investment are made with the primary objective of deriving a return. The return may be received in the from of yield plus capital appreciation.

VII. PROFITABILITY OF DISTRIBUTION OF RETURN

STATE OFTHE ECONOMY	PROBABILITY	RETURN ON STOCK A	RETURN ON STOCK B	RETURN OF PORTFOLIO
1	0.20	15%	5%	5%
2	0.20	-5%	15%	5%
3	0.20	5%	25%	15%
4	0.20	25%	35%	20%
5	0.20	35%	45%	30%



VIII. RISK AND EXPECTED RETURN

There is a positive relationship between the amount of risk and the amount of expected return i.e. the greater the risk, the larger the expected return and larger the chances of substantial loss. One of the most difficult problems for an investor is to estimate the highest level of risk he is able to assume.

- Risk is measured along the horizontal axis and increases from the left to right.
- Expected rate of return is measured on the vertical axis and rises from bottom to top.
- The line from 0 to R (f) is called the rate of return or risk less investments commonly associated with the yield on government securities.
- The diagonal line from R (f) to E (r) illustrates the concept of expected rate of return increasing as level of risk increases.

IX. TYPES OF PORTFOLIO RISK

- Systematic risk

- Un-systematic risk

Systematic risk is unavoidable, systematic risk is further subdivided into three types they are:

- a) market risk
- b) interest rate risk
- c) purchasing power risk

X. SUGGESTIONS OF PROTFOLIO

- All investors would like to earn the maximum rate of return that they can achieve from their investment.
- All investors have the same expected single period investment horizon.
- Perfect markets are assumed (e.g. no taxes and no transition costs)
- The investor can reduce his risk if he adds investments to his portfolio.
- There is a risk free rate at which an investor may either lend (i.e. invest) money or borrow money.
- There is no transaction cost i.e. no cost involved in buying and selling of stocks.
- There is no personal income tax. Hence, the investor is indifferent to the form of return.

XI. CONCLUSION

In the above presented information is about the risk and returns. The term the customer likely to invest in securities for future benefits because there is involved risk as well as return, commonly when there is high risk and there is a high return when there is low risk and there is less benefits. To invest in any stock the decision is based on portfolio collection information so the portfolio plays a vital role in the industries. Today emphasis on portfolio management ideas and it continuous to services the industries.

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