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PORTFOLOI EVALUATION AND INVESTMENT DECISIONS

[1]C H KEERTHI REDDY and [2]Dr., G.SRINIVAS
[1]PG Scholar, [2]Associate Professor,
[1,2]Department of Management, Teegala Krishna Reddy Engineering College (UGC-Autonomous),
Hyderabad,
Telangana, India

ABSTRACT:

Portfolio management can be defined and used in many a ways, because the basic meaning of the word is "combination of the various things keeping intact". So i considered and evaluated this from the perspective of the investment part in the securities segment.

From the investor point of view this portfolio followed by him is very important since through this way one can manage the risk of investing in securities and thereby managing to get good returns from the investment in diversified securities instead of putting all the money into one basket. Now a day's investors are very cautious in choosing the right portfolio of securities to avoid the risks from the market forces and economic forces. So this topic is chosen because in portfolio management one has to follow certain steps in choosing the right portfolio in order to get good and effective returns by managing all the risks.

This topic covers the how a particular portfolio has to be chosen concerning all the securities individual return and thereby arriving at the overall portfolio return. This also covers the various techniques of evaluation of the portfolio with regarding to all the uncertainties and gives an edge to select the right one. The purpose of choosing this topic is to know how the portfolio management has to be done in arriving at the effective one and at the same time make aware the investors to choose the securities which they want to put them in their portfolio. This also gives an edge in arriving at the right portfolio in consideration to different securities rather than one single security. The project is undertaken for the study of my subject thoroughly while understanding the different case studies for the better understanding of the investors and my self.

INTRODUCTION

This project deals with the different investment decisions made by different people and focuses on element of risk in detail while investing in securities. It also explains how portfolio hedges the risk in investment and giving optimum return to a given amount of risk. It also gives an in depth analysis of portfolio creation, selection, revision and evaluation. The report also shows different ways of analysis of securities, different theories of portfolio management for effective and efficient portfolio construction. It also gives a brief analysis of how to evaluate a portfolio.

NEED FOR THE STUDY

Every security is underlying with a risk factor. This study is undertaken to calculate return and risk associated with different shares of banking industry listed in indian stock market (nse). The risk and return has an inverse relationship. When the expected return is high, the risk associated with such return is also high. With the understanding of risk and return characteristics one can make rational decision regarding the investment in which company one can invest.

METHODOLOGY

Primary data

- Data collected from newspaper & magazines.
- Data obtained from the internet.
- Data collected from brokers.
- Data obtained from company journals.

Secondary data

- Data collected from various books and sites.

LIMITATIONS

- The data collected is basically confined to secondary sources, with very little amount of primary data associated with the project.
- There is a constraint with regard to time allocated for the research study.
- The availability of information in the form of annual reports & price fluctuations of the companies is a big constraint to the study.

REVIEW OF LITERATURE

A study on portfolio evaluation and investment decision (banking) with reference to appollo capital limited, chennai

Portfolio the executives can be characterized and utilized from multiple points of view, in light of the fact that the fundamental importance of the word is "mix of the different things keeping unblemished". So i considered and assessed this from the point of view of the speculation part in the protections fragment. From the financial specialist perspective this portfolio pursued by him is significant since through along these lines one can deal

with the danger of putting resources into protections and subsequently figuring out how to get great comes back from the interest in differentiated protections as opposed to placing all the cash into one crate. Presently multi day's financial specialists are extremely wary in picking the correct arrangement of protections to stay away from the dangers from the market powers and monetary powers. So this point is picked in light of the fact that in portfolio the board one needs to pursue certain means in picking the correct portfolio so as to get great and viable returns by dealing with every one of the dangers. This point covers the how a specific portfolio must be picked concerning every one of the protections individual return and along these lines touching base at the general portfolio return. This additionally covers the different systems of assessment of the portfolio with in regards to every one of the vulnerabilities and gives an edge to choose the correct one. The motivation behind picking this subject is to know how the portfolio the board must be done in landing at the compelling one and simultaneously make mindful the speculators to pick the protections which they need to place them in their portfolio. This additionally gives an edge in touching base at the correct portfolio in thought to various protections as opposed to one single security. The venture is embraced for the investigation of my subject altogether while understanding the diverse contextual analyses for the better comprehension of the financial specialists and myself.

Richard c. Grinold and ronald n. Kahn (2000): a writing audit can be characterized as investment analysis and portfolio management expresses that it is a methodology utilized in key intending to contrast different stocks with each other so as to build up needs and choose the better and the great (frank k. Reilly, 1987). Another key proportion used to relate the presentation of a portfolio in connection to hazard and return is data proportion. It is utilized to check the exhibition of the speculation director is connection to its benchmark. This proportion is only used to quantify the degree to which the portfolio over - performed or failed to meet expectations in connection to a benchmark.

Harry m. Markowitz, 1971) and (edwin j. Elton et al., 2014 demonstrate that a portfolio is something other than a rundown of stocks and securities, it is a fair arrangement of speculation which remembers the hazard looking for ability of the person without refuting the open doors that are covered up in it and furthermore carrying into notice the dangers related with it. The way to make a portfolio is to make one which suits the individual needs of the financial specialist (jensen, 1969). Very like this was treynor measure, which gave the opportunity to decipher the relativity between remunerations to hazard factor. A high treynor measure is favored when contrasted with a littler one. What's more, the creators pursued a quantitative equity investing: techniques and strategies expresses that a fixed salary security to be placed in straightforward words is the fiscal responsibility of a firm to the financial specialist to pay certain aggregate of cash at some predetermined pre arranged contract dates. A portion of the principle backers of the u.k. Government, neighborhood administrative committees and organizations that are enormous in structure like imf and world bank (pamela peterson drake and frank j. Fabozzi, 2010) and (dimitris n. Chorafas, 2004). This incorporates alternatives which enable the holder to pick as to purchase, hold or sell the stock at a predetermined time and at a predefined cost. The alternatives incorporated into this are warrants and put and call options.industry (sbi, indian bank, hdfc and icici), it–software industry (tcs, infosys, wipro ltd and hcl), steel industry (sail, jindal

steel and power, tata and mahindra ugine), cement industry (ambuja cement ltd, ultra tech, madras and india cement) and auto mobiles (tata motors, maruti suzuki india ltd, hero motocorp and bajaj auto). The information gathering was carefully restricted to optional source. No essential information is related with the undertaking. The optional information was gathered from the related diaries, books, paper, magazines and organizations yearly reports during the long stretch of december 2018 to february 2019.

A study on portfolio evaluation and investment decisions with reference to banking industry in india

Abstract

The stock exchange provides not only free transferability of shares but also makes incessant evaluation of securities traded in the market. The present study is deliberate to examine the risk & return analysis of selected stocks in india. Risk may be defined as the chance of variations in actual return. Return is defined as the gain in the value of investment. The return on an investment portfolio helps an investor to evaluate the financial performance of the investment. The main aim of this article is to study the investor to decide effective portfolio of securities. Banking sector is treated as to be in the back bone of the indian economy. The task of banking industry is particularly vital as one of the leading and mostly essential service sector. While the indian economy is yet to catch strength, the indian banking system continues to deal with improvement in asset quality, execution of sensible risk management practices and capital adequacy.

DATA ANALYSIS & INTERPRETATION

PRACTICAL ANALYSIS

Portfolio A

Securities	Return R %	Beta Value (β)	Unsystematic Risk σ^2_{ei} (%	Excess Return Over Ri – R / β	(Ri-Rf) / σ^2_{ei}	Cumulative (Ri-Rf) / σ^2_{ei}	β^2 / σ^2_{ei}	Cumulative β^2 / σ^2_{ei}	$C = \frac{\sigma m^2 \sum_{i=1}^{n} (Ri-Rf)\beta}{\sigma^2_{ei}} \Big/ 1+\sigma m^2 \sum_{i=1}^{n} \frac{\beta^2}{\sigma^2_{ei}}$
Bharti Airtel	14.2	0.88	29	10.5	0.2822	0.2822	0.0286	0.0288	2.19
ITC	10.1	0.99	18.65	5.2	0.2654	0.5476	0.1133	0.1420	2.26
Guj Amb.com	10.5	1.03	35	4.5	0.1618	0.7094	0.0303	0.1723	2.606
ICICI Bank	8.8	0.91	12.33	4.3	0.2878	0.9972	0.0801	0.2524	2.830
BHEL	9.4	1.06	30.5	4.24	0.1564	1.1536	0.0368	0.2892	2.964
HDFC	9.1	0.96	14.83	4.2	0.2590	1.4126	0.1908	0.4799	2.45
Bajaj Auto	8.4	1.03	14	3.39	0.2575	1.6701	0.1324	0.6124	2.34
Acc	8.6	1.06	28	3.30	0.1325	1.8026	0.0401	0.6526	2.39
Hindalco	8.3	1.29	12	2.7	0.3762	2.1788	0.1664	0.8190	2.37
HDFC Bank	6.6	0.82	32	2.39	0.0461	2.2249	0.0210	0.84	2.36 c*
HLL	7.1	1.03	26	1.9	0.0792	2.3041	0.0408	0.8808	2.34
Dr. Reddys	6.1	0.69	20	1.5	0.0345	2.3386	0.0238	0.9046	2.32

Note: -C* is the cut-off point to include the securities in to portfolio.

Interpretation:

- Construction of optimal portfolio starts with determines which securities are included in the portfolio, for this the following steps necessary.
- Calculation of' excess return to beta ratio' for each securities under review and rank from highest to lowest.
- The above table shows that the construction of optimal portfolio from bse sensex scripts.
- In the above table all the securities whose 'excess return to beta 'ratio are above the cut-off rate are selected and all those whose ratios are below are rejected.
- For the portfolio-a selected scripts are 10 out of twelve whose "excess return to beta" ratio are above the cutoff rate (2.36 c*) are included in the portfolio basket. Hll (1.9 < 2.34) dr.reddy's (1.5 < 2.32) securities excess return to beta ratios are less than the cut-off so those are excluded from the portfolio.

PORTFOLIO B

Securiti	Return R %	Beta Valu (β)	Un Syste metic Risk σ^2_e (%	Excess Return Over (Ri – R / β	(Ri-Rf) / σ^2_e	Cu mulative (Ri-Rf) / σ^2_e	β^2 / σ^2_e	Cumulati β^2 / σ^2_e	C= $\sigma m^2 \sum_{i=1}^{n}$ (Ri-Rf) β / σ^2_e / 1+ $\sigma m^2 \sum_{i=1}^{n} \beta^2 / \sigma^2_e$
Bharti Airtel	14.2	0.88	29	10.5	0.2822	0.2822	0.0286	0.0286	2.19
ITC	10.1	0.99	18.65	5.2	0.2654	0.5476	0.1133	0.1419	2.26
Guj Amb.cc	10.5	1.03	35	4.5	0.1618	0.7094	0.0303	0.1722	2.606
ICICI Bank	8.8	0.91	12.33	4.3	0.2878	0.9972	0.0801	0.2523	2.830
BHEL	9.4	1.06	30.5	4.24	0.1564	1.1536	0.0368	0.2891	2.964
HDFC	9.1	0.96	14.83	4.2	0.2590	1.4126	0.1908	0.479	2.45
Bajaj Auto	8.4	1.03	14	3.39	0.2575	1.6701	0.1326	0.6125	2.34
Acc	8.6	1.06	28	3.30	0.1325	1.8026	0.0401	0.6525	2.39
Hilbalc	8.3	1.29	12	2.7	0.3762	2.1788	0.1664	0.8190	2.37
HDFC Bank	6.6	0.82	32	2.39	0.0461	2.2249	0.0210	0.84	2.36 c*
HLL	7.1	1.03	26	1.9	0.0792	2.3041	0.0408	0.8808	2.34
Dr. Reddys	6.1	0.69	20	1.5	0.0345	2.3386	0.0238	0.9046	2.32

Note: -C* is the cut-off point to include the securities in to portfolio

Interpretation:

- The desirability of any securities to include in the portfolio is directly related to excess return to beta ratio and cut-off rate.

- The above information shows that for securities of satyam computers to ntpc ri – rf / β is less than c*. While securities 11&12 are less than c*. So from satyam computers to ntpc all the ten securities are included in the portfolio and ongc & tata consultancy services are not added in the optimal portfolio.

- Here optimal portfolio consists of securities of 10 companies

PORTFOLIO C:

Securities	Returns R %	Beta Values (β)	Un Syste metic Risk σ^2_e (%)	Excess Return Over (β Ri – Rf / β	(Ri-Rf) β / σ^2_e	Cu mulative (Ri-Rf) β / σ^2_e	β^2 / σ^2_e	Cumulative β^2 / σ^2_e	C= $\sigma m^2 \sum_{i=1}^{n}$ (Ri-Rf) β / 1+ $\sigma m^2 \sum_{i=1}^{n}$ β^2 / σ^2_e
Satyam Com	18	1.09	45	11	0.2906	0.2906	0.0264	0.0264	2.29
Bharthi Airtel	14.3	0.88	29	10.5	0.2654	0.556	0.0286	0.055	3.587
Reliance Comm.	10.3	0.95	19	8.4	0.2650	0.821	0.0525	0.1074	3.956
SBI	10.62	1.12	20.5	7	0.3070	1.128	0.0711	0.1786	4.048
Reliance Ene	8	0.66	22	5.6	0.0900	1.218	0.0200	0.2086	3.94
L&T	5.5	0.80	12	5.2	0.2333	1.4513	0.0544	0.263	3.9
Hero Honda	4.8	1.00	15	4.54	0.2533	1.7046	0.6777	1.9407	1.637
Guj Amboja	8.5	1.42	12.76	4.5	0.3894	2.094	0.1580	1.0987	1.905
Ranbaxy	6.8	0.82	32	4.4	0.0461	2.1401	0.1664	1.2651	1.567
ICICI	6	0.74	4.5	4.3	0.1644	2.3045	0.1217	1.3868	1.549
BHEL	6	0.69	20	4.24	0.0345	2.3390	0.0238	1.4106	1.5488
Infosys	6	0.89	5	4.2	0.178	2.517	0.15842	1.5690	1.508

Interpretation

- For the portfolio-c selected scripts are 12companies and portfolio basket consists of all the selected scripts whose excess return to beta ratios are always greater than cutoff rates.
- So the optimal portfolio consists of selected all 12 securities.

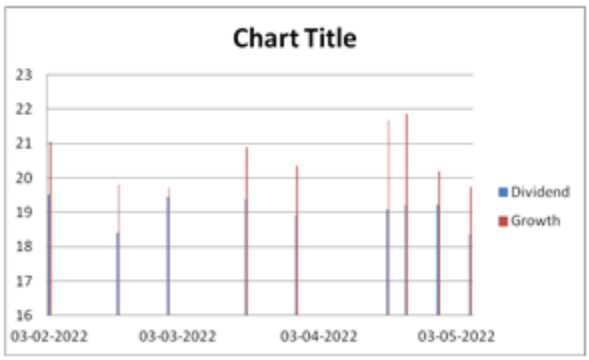
From the portfolio I selected some of the mutual fund

STATE BANK OF INDIA

State Bank of India is the first Bank sponsored Mutual Fund to launch offshore fund, the India Magnum Fund with a corpus of Rs. 225 cr. approximately. Today it is the largest Bank sponsored Mutual Fund in India. They have already launched 35 Schemes out of which 18 have already yielded handsome returns to investors. State Bank of India Mutual Fund has more than Rs. 5,500 Crores as AUM. Now it has an investor base of over 8 lakhs. Spread over 19schemes

AV History-Historical NAV for a period
From 1-Feb-2022 to 18-May-2022
SBI Mutual Fund
magnum Equity Fund -Dividend..& Growth

DATE	Dividend	Growth
03/02/2022	19.52	21.06
18/02/2022	18.42	19.81
01/03/2022	19.46	19.71
18/03/2022	19.37	20.89
29/03/2022	18.91	20.36
18/04/2022	19.08	21.69
22/04/2022	19.23	21.86
29/04/2022	19.23	20.19
06/05/2022	18.37	19.75



Interpretation

The above graph indicates that the equity fund - growth and dividend from the 1st week of dec is almost performing same but in 2nd week of jan the performance of growth has drastically changed when compared to dividends, and again the performance showed is similar in rest of the weeks. Because of declaring dividends frequently,the performance of dividend always shows less when compared with others.

FINDINGS

- ✓ The investor can recognize and analyze the risk and return of the shares by using this analysis.
- ✓ The investor who bears high risk will be getting high returns.

- ✓ The investor who is having optimum portfolio will be taking optimum returns with minimum risk.
- ✓ The investor should include all securities which are undervalued in their portfolio and remove those securities that are over valued.
- ✓ The investor has to maintain a portfolio of diversified sector stocks rather than investing in a single sector of different stocks.
- ✓ People who are investing in them mostly depend on the advice of their friends, relatives and financial advisors.
- ✓ People generally invest their savings in fixed deposits, recurring deposits, and national savings certificate and government securities as they are less risky and the returns are guarantied.
- ✓ Every investor invests in basic necessities. They plan to invest in insurance (lic, gic) and pension funds as these give guarantied returns and are less risky.
- ✓ Most of the investors feel that investing in stock/capital market is of high risk therefore they don't invest in them.

CONCLUSIONS

- ❖ When compared to other portfolios, portfolio-c gives him the maximum return with twelve scripts.
- ❖ The diversification of funds in different company scripts is possible from the portfolio-c when compared to others.
- ❖ Market risk is also less when compared to the other portfolio.
- ❖ If the portfolio manager is efficient and the investor is risk tolerant person and the investment is a long term perspective then it is better to invest in the mid-caps & small-caps companies securities, where the growth of returns are higher than the large-caps .
- ❖ If investor is not risk tolerant person & short-term perspective it's good to invest in large caps companies' securities.
- ❖ I feel that this year small cap and mid cap companies will be performing well when compared to large cap as we have observed last year.

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