Major Research Report

APPLICATIONS OF DIVERSIFICATION IN MANAGING INVESTMENT PORTFOLIOS

Submitted By

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CERTIFICATE FROM THE INSTITUTION

This is to certify that **Yash Jaiswal, 2K21/DMBA/143** has submitted the major research project titled "**Applications of diversification in managing investment portfolios**" under the guidance of Mr Dhiraj Kumar Pal as a part of Master of Business Administration (MBA) curriculum of Delhi School of Management, Delhi Technological University, New Delhi during the academic year 2022-23.

Signature of the Guide	**Signature of Head of Department**
Mr. Dhiraj Pal	**Dr. Archana Singh**

DECLARATION

I, Yash Jaiswal, student of MBA 2021-23 of Delhi School Of Management, Delhi Technological University, hereby declare that the Project Dissertation report on "**Applications of diversification in managing investment portfolios**" submitted in partial fulfilment of Degree of Master of Business Administration is the original work conducted by me. I also confirm that neither I nor any other person has submitted this project report to any other institution or university for any other degree or diploma. I further declare that the information collected from various sources has been duly acknowledged in this project.

…………………………….

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2.EXECUTIVE SUMMARY

Fundraising is the sacrifice of present money and other assets for future blessings. There are several funding options available today. The two key factors in fundraising are time and threat. In general, a lending system has two tasks. The first effort is security analytics dedicated to assessing threats and characterizing available funding options. The second task is selection of portfolio. This is to choose a good portfolio from a set of portfolios. Building a portfolio is only one aspect of the fight. The portfolio must be maintained after it has been created. Market valuations, beneficiary demands, and the relative merits of the components of the portfolio might all vary over time. The portfolio manager needs to respond to these modifications. Portfolio management typically necessitates frequent portfolio revisions in line with a predetermined plan.

The most rewarding aspect of the battle is creating a portfolio. The portfolio should be maintained after it has been created. It is possible for portfolio components' market values, beneficiary needs, and merits to vary over time. Managers of portfolios must make these adjustments. Regular portfolio assessments according to a certain strategy are necessary for portfolio management.

In this sample questionnaires are created and distributed to retailers. Investor profiles are primarily based on the results of surveys completed by traders. Our sample includes 50 of his private investors from various backgrounds. Our target customers are individual investors who invest in a variety of ways, primarily with a broad sense of expertise and difficulty with the financial system, including investment targets, funding options, and market conditions. In these traders' opinion, the interpretation is complete, with some indications, plus findings and conclusions.

These investors believe that an interpretation has been done, together with findings, a conclusion, and some recommendations.

3. LITERATURE REVIEW

3.1 PORTFOLIO

An institution or an individual who holds investments in a portfolio does so in a proper mix or collection. Rarely is it a good idea to put all of a person's or organization's money into a single security.

A portfolio's expected return is the weighted average of the individual security's expected returns, but in short, the portfolio's variance may be slightly less than the weighted average of the security's variance. Risk is highly dependent on the covariance between individual security returns. The contribution of each security to the expected return of the portfolio depends on the proportional distribution of the expected return and the market value of the initial portfolio.

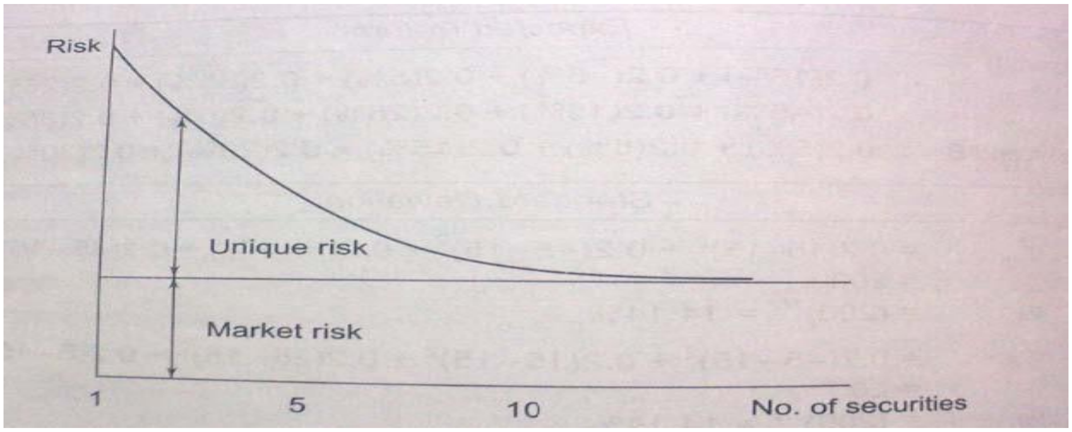
3.2 RISK

Risk is a notion that refers to potential negative outcomes from present procedures or upcoming occurrences that may have an impact on assets or particular values. Risk is the possibility of losing money, seeing your capital decrease, or both. A security's overall risk is made up of two parts: market-related risk, also known as systematic risk or non-diversifiable risk, and security-specific risk, also known as unsystematic or diversifiable risk.

3.2.1 RISK & ITS TYPES

Modern portfolio theories look at risk from various perspectives. It divides total risk as follows,

Total Risk = Unique Risk + Market Risk



Relation between risk &diversification

The fraction of overall risk that results from company-specific elements like the creation of new products, labor disputes, or the emergence of new competitors is known as security-specific risk. In a diversified portfolio, the risks associated with various equities tend to balance one another out. A positive performance in one business might make up for a bad incident in another, and vice versa. Therefore, unique risk is also known as diversifiable risk or non-systematic risk.

A portion of the risk resulting from macroeconomic factors including GDP growth, levels of governmental spending, money supply, interest rate structure, and inflation is represented by market risk in securities. No matter how diverse their portfolios are, investors cannot completely eliminate the risks resulting from these factors, which affect all companies to varying degrees.

3.3 INVESTMENTS

Any activity that includes supporting with money with the goal of earning more money later on is referred to as investing. The possibility that the revenue will fluctuate from minimal to maximum is included in expected value. Investment risk is the probability that the actual return will differ. Therefore, all investments involve risk and return. Investing is an activity done by a person who has savings. Investors expect additional monetary value from investment vehicles.

The three major characteristics of any financial asset are:

Return – the potential return expected from any asset

Risk – the variability in return of the assets depending on its value going up or down.

Liquidity – the easiness by which any asset could be converted into cash equivalent.

3.3.1 INVESTMENTS ALTERNATIVE:

An investor has a range of investment instruments like:

Equity Shares

Equities represent the percentage of ownership. An equity shareholder is a part-owner of the company. Stock market analysts categories equity shares into broad groups, such as income shares, growth shares, blue-chip shares, etc.

Bonds

Debt instruments are referred to as bonds or debentures. A bond's issuer pledges to provide a required source of cash flow. The following categories, including Corporate Bonds, G-Sec, Preference Shares, etc., can be used to categories bonds.

Money-Market Instrument

Debt instrument with a life of less than a year are known as money-market instruments. Commercial papers, CD, and Treasury bills are a few examples of the several money market instruments.

Mutual-Fund Scheme

We can invest in numerous mutual fund schemes that invest in equity shares as an alternative to purchasing equity shares or fixed income securities. There are three different kinds of mutual fund schemes, including debt, equity, and balanced ones.

Life-Insurance Policies

Investments can also include life insurance. Insurance premiums are an investment, and the guaranteed payout represents a return. Term insurance, life insurance, endowment insurance, money-back insurance, and other types of insurance are available.

Real Estate

For the common investors the most important asset in their portfolio is a home. In addition, the investors are likely to be investing in: Farmhouse, Commercial, Agriculture Land, etc.

Financial-Derivative

Any instrument whose value is generated from an underlying is considered a financial derivative. Futures and options are the two most significant financial derivatives.

3.3.2 CRITERIA FOR EVALUATION:

For evaluating any investment, the following criteria are required:

Risk

The risk of any investment refers to the variability of its rate of return. There are many measures used to measure risk such as: Variance, Standard Deviation, etc.

Marketability

An investment is highly marketable if the transaction cost is low, quick and price variation between successive transactions is negligible. Market liquidity can be measured by its depth, breadth and resilience.

Tax-Shelter

Some investment provides tax benefit which is of three types: Terminal, Continuing and Initial.

3.3.3 COMMON ERRORS IN INVESTMENT MANAGEMENT:

Investor is likely to make the mistakes when managing their investments: Some of the most mistakes are:

Lack of understanding of risk and return

• Ambiguously formulating investment policy

• Naive speculation of the past

• Fleeting decisions

• Pick-up and drop-off after hours

• High cost

• Over – Diversified and Under – Diversified

• Wrong-attitude towards loss and gain

3.3.4 QUALITY USED IN SUCCESSFUL INVESTING

The long-term success of the investment game require certain qualities34 in the investor. The following qualities that are most commonly seen are:

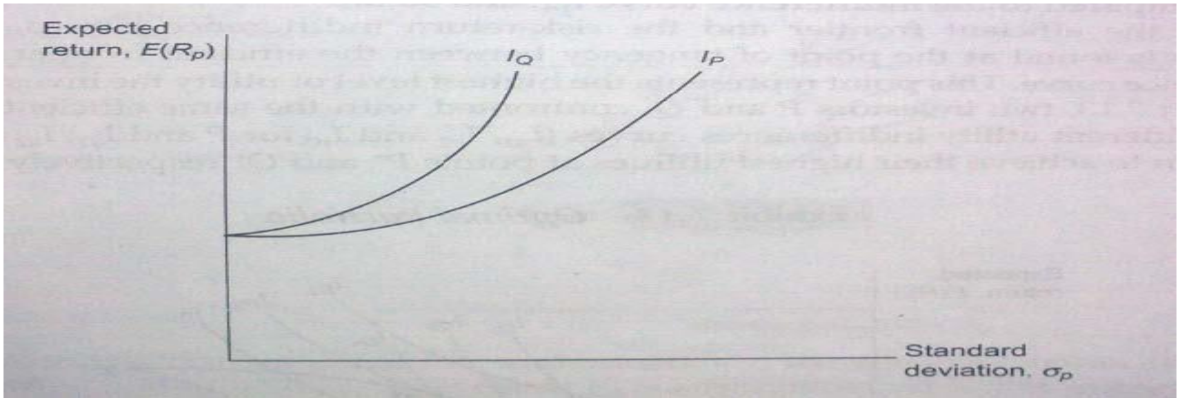
• Rebuttal and Decision making

• Patience and Tranquility

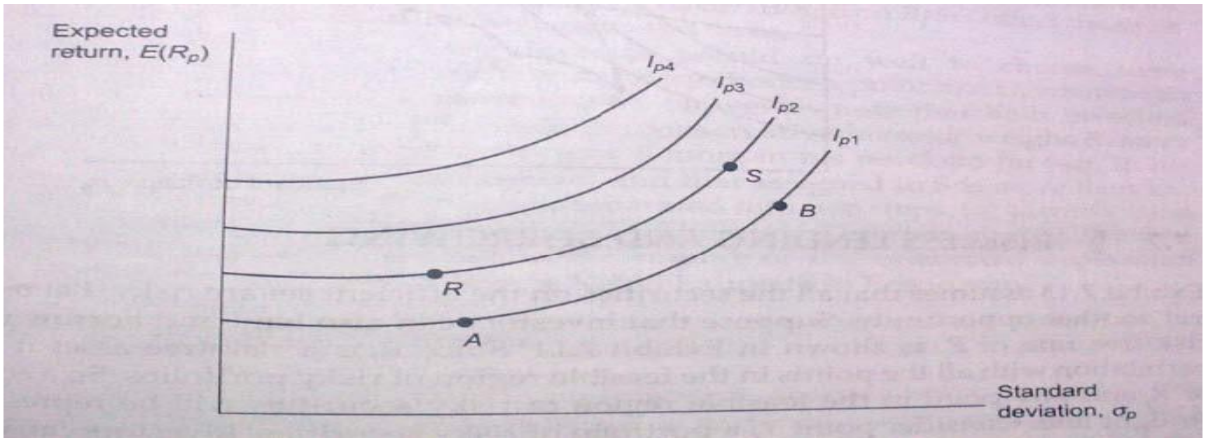
• Flexibility and openness

3.4 OPTIMAL PORTFOLIO

Once the efficiency frontier is defined, we need to determine the optimal portfolio. For investors to choose the best portfolio on the efficient frontier, they must understand the risk-return trade-offs. Two illustrations of indifference curves that reflect the risk-reward trade-off function are shown in Figure below. The indifference curve's points all offer the same degree of satisfaction. The risk-reward tradeoff for two fictitious investors P and Q is represented by the indifference curves Ip and Iq. Like the majority of investors, P and Q are risk cautious. To take on more risk, they seek higher rewards. But compared to P, Q is more risk cautious. Compared to P, Q seeks a higher expected return for a given level of risk. The degree of risk aversion is typically inversely correlated with the slope of the indifference curve.

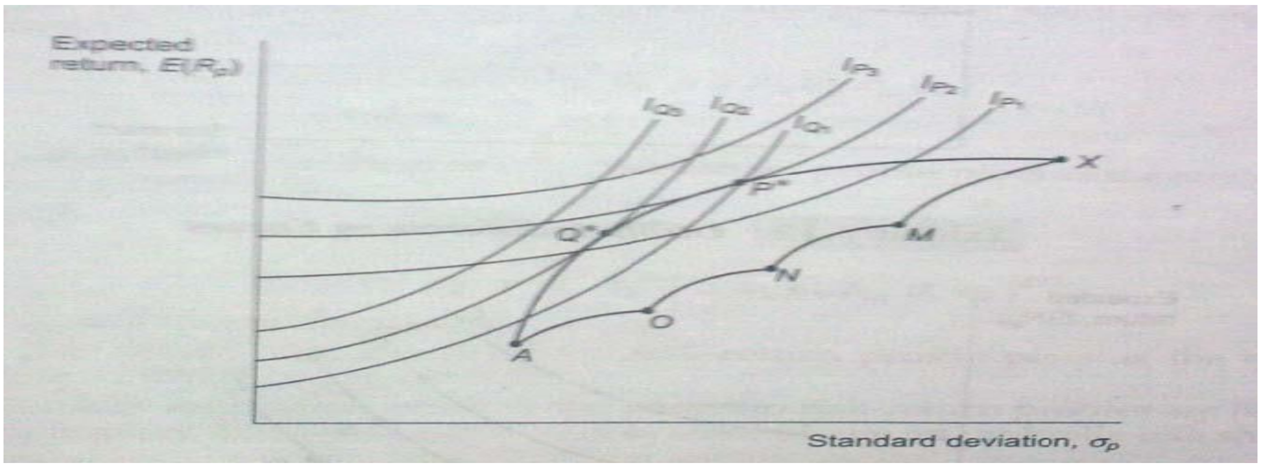


Risk-Return Indifference Curve



Utility Indifference Curve

Figure of utility indifference curve shows the promiscuous map of P. Four risk-reward indifference curves, Ip1, Ip2, Ip3, and Ip4, are shown in this figure. A specific indifference curve's points all offer the same degree of satisfaction. For example, points A and B on the indifference curve Ip1 provide the same level of enjoyment. Points R and S on the indifference curve Ip2 provide an equal amount of enjoyment. You feel better when you move to the left. The indifference curve Ip2 is more satisfying than the indifference curve Ip1 in comparison. The indifference curve Ip3 is more satisfying than the indifference curve Ip4 in comparison. Given an efficiency frontier and a risk-reward indifference curve, the optimum portfolio is found at the point where the utility indifference curve meets the efficiency frontier. The maximum level of benefit a shareholder can achieve is at this stage. Figure below shows two investors P and Q facing the same efficiency frontier but different utility indifference curves (Ip1, Ip2, and Ip3 for P and Iq1, Iq2, and Iq3 for Q).



Optimally used Portfolio

3.5 CAPITAL ASSET PRICING MODEL (CAPM):

The CAPM model makes predictions about how an asset's risk and anticipated return interact. This is significant for two factors.

• Create benchmarks to evaluate different investments. For example, when an investor analyzes a security, he is interested in whether the expected rate of return matches his CAPM rate of return.

• Helps investors estimate the return they can expect from assets that have not yet traded in the market.

3.5.1 BASIC ASSUMPTIONS OF CAPM:

- People are risk averse. Individuals attempt to maximize the utility of their portfolio.
- People have uniform expectations and have the same subjective estimates of the mean, variance, and covariance between returns.
- The market is perfect, no taxes, and no transaction costs.

3.6 PORTFOLIOS CONSTRUCTION:

3.6.1 PORTFOLIOS CONSTRUCTION METHODOLOGY

The methodology a fund manager uses to construct a portfolio is highly dependent on the type of fund they manage and the type of management they use, but there continues to be a tendency to specialize in specific funds, such as segregated pension funds with global investments. Portfolio analysis showing the weight assigned to each category is particularly useful. Other analyzes include: Stocks are sensitive to a variety of factors that affect market prices in the short, medium and long term. These data are provided by external brokers and in-house analysts. Portfolio level analyses include the following:

Fund Break down By:

Company Size: When the economy picks up, smaller companies can grow faster than larger companies, but in downturns, investors tend to invest in more resilient large companies by availability of cash and diversification.

Economics theme: Across portfolios, factors such as funds beta also provide useful risk information. It is most useful to compare funds against benchmarks. Another analysis of safety levels includes price-earnings ratio growth. It is a dynamic measure of trends in value change (for value style managers) or growth change (for growth managers).

3.7 PORTFOLIO OBJECTIVES:

- ***Stability Of Principal***

The most cautious portfolio objective, this one will produce the smallest return in the long run. The preservation of the fund's "original" worth is the main concern here. Any money market instrument and bank certificates of deposit are suitable investment vehicles when maintaining principle stability is the goal.

- ***Income***

There is no explicit prohibition (forbidden) against periodic decreases in principal value, which is how the revenue target differs from the stability of principal objective. Corporate bonds, government bonds, government agency instruments, preferred stock, and some common stock are suitable investments where income is the chosen objective.

- ***Growth of Income***

The beginning income distribution is often lower, but it gradually increases and surpasses the level amount from an income aim. The goal of an income objective is to generate as much current income as possible while adhering to the established risk parameters. This amount will at first exceed what a portfolio aiming for income growth would generate. It's crucial to keep in mind that a growth-of-income aim requires the fund manager to search for some capital growth in the initial primary.

- ***Capital Appreciation***

For instance, a retired couple may be able to support their retirement lifestyle on their pension and Social Security checks. Income taxes are another thing to think about. Received interest or dividends are subject to immediate taxation. Before they are actually realized, capital gains are not subject to tax. Unrealized capital gains are not subject to taxation, unlike dividend and interest income.

3.8 FOUR STEPS TO BUILDING A PROFITABLE PORTFOLIO:

Step 1: Determining the Appropriate Asset Allocation

The next step in developing a portfolio is figuring out your specific investment objectives. Age, time needed to develop your investment, quantity invested, and anticipated future money needs are important factors to think about. A recent college graduate just beginning her work has a totally different investment approach than her married, 55-year-old partner who intends to fund the college education of his children and is getting close to retirement. Articulating your current and future capital needs and risk tolerance will determine how investments should be allocated across asset classes. Higher return potential comes with higher risk of loss (principle known as the risk-reward trade-off) - we do not try to eliminate risk, but our unique constitution and style Optimize risk for example, young people who do not depend on investments for their income can afford to take greater risks in search of higher returns.

Conservative and Aggressive-Investors

In general, our portfolio will be more aggressive and invest more in stocks and less in bonds and other fixed income assets the more risk we are willing to accept. On the other hand, a portfolio will be more cautious the less suitable the risk. The protection of value is the basic objective of a conservative portfolio. The aforementioned allocation offers potential for both short-term capital gain by investing in high-quality companies and current income from bonds.

To fulfil their average risk tolerance and strike a balance between asset growth and income, investors will be drawn to a moderately aggressive portfolio if it is sufficiently aggressive.

Step 2: Achieving the Portfolio Designed in Step 1

All that is left to do is distribute funds to the appropriate asset classes once you have found the optimal asset allocation. Diverse asset classes can, however, be further broken down into subclasses with various risks and potential rewards. For instance, investors can divide up equity chunks across various market capitalization, industries, and domestic and international stocks.

Long-term and short-term government bonds make up the government bond part. To implement an asset allocation plan, there are various different approaches to asset and security selection.

- **Choosing a stock:** In the equity section of your portfolio, pick stocks that correspond to the level of risk you want to assume. Utilise stock screeners to research firms, select potential investments, and assess each potential buy to identify potential future prospects.
- **Bond selection:** There are a number of things to take into account when picking a bond, including coupon, maturity, bond type and rating, and the overall environment for interest rates.
- **Mutual funds:** These can hold equities and bonds that have been carefully chosen and examined by the fund management. They come in a number of asset types.
- **Exchange Traded Funds (ETFs):** ETFs are akin to mutual funds in that they represent a sizable assortment of equities that are typically categorised by sector, capital, nation, etc.

Step 3: Reassessing Portfolio Weightings

A portfolio should be evaluated and rebalanced on a regular basis after it has been created since market fluctuations can alter the initial weights. Count the investments and calculate their share of the overall value to examine the real asset allocation of the portfolio. You might need to keep fewer shares if your risk tolerance drops. Determining the amount that position needs to be cut and given to other classes is known as rebalancing.

Step 4: Rebalancing Strategically

Choose which underweight stocks to purchase using the proceeds from the sale of the overweight stocks after determining which stocks need to be decreased by how much. Even with the tax repercussions, you should sell the same overweight growth stock if you believe it will decline alarmingly in the future. Research studies and analyst assessments may be useful.

3.9 WHAT MAKES A GOOD SCREEN?

- ***Of Administration***

Administrative assistance only makes sense once you use it. For example, you may be asked to look for low-trading stocks that look attractive. Lean trading is the term used to refer to securities that have a small number of shareholders and generally lack trading volume.

- ***Relevance And Appropriateness***

Logically, the screen should also have something to do with the end goal. Someone might say, "I'm going to invest in a good company with a name that starts with an A," but that probably doesn't make sense. Now consider a slightly different situation where you want to identify promising companies, but don't want to spend hours digging through financial pages. Instead, you might choose to start at the top of the New York Stock Exchange listing and find something early or in the middle of the alphabet. This latter technique is more logical than the former. The point is that the first letter of the company name isn't really a decision variable, it shouldn't be required and is therefore an inadequate validator.

3.10 SOURCES OF INFORMATION:

- ***Value Line:***

One of the best-known subscription services is the Value Line Investment Survey. This weekly publication from value line, Inc., follows 1700 different common stocks and rates them.

- ***Standard & Poor's***

The Standard & Poor's Corporation provides a wide range of studies on the business environment, specific sectors, and stocks. For portfolio managers, two of these reports are extremely helpful. These are:

1. The S&P Stock Report is a one-page document that offers an incredibly thorough assessment of a company coupled with a prediction for the future.

2 .The S&P Stock Guide, a monthly magazine, offers statistical data summaries on thousands of common stocks, warrants, and mutual funds. A briefcase or coat pocket may easily accommodate this book due to its small size.

- ***Moody's Manual of Investments:*** A particularly common problem arises when we are looking for information about companies that are not known to us but do not have publicly traded shares. The Blue Pages of Moody's Manuals contain cross-references to subsidiaries. Additionally, Moody's handbooks contain more thorough company news stories, thorough financial statements, and pertinent data that, due to space restrictions, cannot be included in stock reports.

3.11 THE ROLE OF REAL ASSETS:

3.11.1 INTRODUCTION:

Traditional stock and bond issues are only one component of today's financial decisions. Many savings and loans failed as a result of a general lack of understanding of issues like length and usability of futures market products. In the majority of portfolios, financial assets are held. These are well-known securities like common stock shares, corporate bonds, etc. A financial asset's defining feature is the existence of a corresponding obligation for every such asset. Financial assets appear on two balance sheets, one as a liability for one party and one as an asset for another. In contrast, real assets do not have a matching responsibility; however one can be made to pay for the asset's acquisition. Leverage is typically used in real estate transactions.

3.11.2 REAL ESTATE IN GENERAL: INVESTMENT CHARACTERISTICS

Most real estate has three fundamental characteristics of land. Land is indestructible, immobile, and non-fungible.

3.11.3 DEVELOPED AND UNDEVELOPED PROPERTY

Real estate is frequently separated into developed and undeveloped areas. Undeveloped, or raw, land has no improvements; developed property is land with improvements. Developed property is typically bought for its ability to generate revenue and for the tax benefits resulting from the depreciation of buildings on the site. Examples include office buildings, housing complexes, and shopping centers. The reasons for buying undeveloped property are more diverse. They include overt speculation, the actual manufacture of subdivided parcels for sale or development, and the raising of cattle, crops, or trees.

3.11.4 GOLD

Due to its price volatility, gold is a common trading commodity among investors. Due to its risk-reduction features, it is well-liked by hedgers. In the past, gold has been a helpful inflation hedge, and rising oil prices increase inflationary concerns.

3.11.5 INVESTMENT IN GOLD

We can invest in gold in various ways:

- ***Bullion/Coins:*** There is a considerable theft risk and they do not generate any revenue. Also, they are not marketable. Collectors and investors alike enjoy gold coins. It's critical to discern between a coin's intrinsic and numismatic values. The higher of a coin's bullion value or its fiat value is considered its intrinsic value.

- ***Gold Certificates:*** Investors can also buy records attesting to their ownership of gold bullion held by a third party on their behalf. Storage, delivery, and insurance concerns are gone. These certificates do carry the danger that there is no gold backing them, but this risk is minor if we transact through a sizable bank or brokerage house.

3.12 PORTFOLIO MANAGEMENT

The technique of aligning your portfolio assets with predetermined financial goals is called portfolio management. The market value, beneficiary needs and relative merits of portfolio components may change over time. Portfolio management usually requires the portfolio to be revised periodically according to a given management strategy These decisions usually always include some form of performance measurement, such as the portfolio's expected return and the risk associated with that return.

Portfolio management involves evaluating past performance, projecting future growth, and then selecting the most appropriate investment option. Three goals of portfolio management are: Maximization of Value, Balancing and Strategic decisions.

3.12.1 TYPES OF PORTFOLIO-MANAGEMENT

An active management strategy involves a constantly changing portfolio composition. A passive management technique, on the other hand, is one that, once a portfolio is built, is generally left alone.

• **Active portfolio management:** Strive to generate returns on their chosen investments that are higher than the market average. For the purpose of creating an investment plan, conduct market research. Purchasing inexpensive securities or selling overvalued equities are examples of active portfolio management strategies.

• **Passive portfolio management:** This method only involves choosing assets that follow a specific index. Creating investment plans as part of portfolio construction falls under this. Final decisions must be made about asset classes and the pro rata distribution of funds among them.

3.13 THE MANAGER’S-CHOICES

- **Leave the Portfolio Alone:** This is the obvious option, and many people choose to do so. Simply put, a buy-and-hold strategy entails picking an investment and holding it. This tactic is passive. For individual investors, one of the main advantages of the buy-and-hold strategy is that it reduces some of the psychological stress related to portfolio maintenance. Another argument he raises in favour of sticking with the portfolio policy is that, when risk is taken into account, portfolio managers frequently underperform straightforward buy-and-hold strategies.

- **Rebalancing the Portfolio:** Portfolio rebalancing involves making periodic adjustments to a portfolio in order to preserve a particular initial state..

  1. ***Constant-Proportion Portfolio:*** Constant share portfolios adjust to maintain the relative weight of portfolio components in response to price changes. Equal weight portfolios are a special case of constant weight portfolios.

  2. ***Constant Beta Portfolio:*** Over time, the values of the constituents of the portfolio may change, and the beta values of the constituents may also change. This can also change the beta of the entire portfolio. Rebalancing a portfolio to maintain a constant beta is much easier than maintaining a constant percentage.

- ***Change the Portfolio Components:*** Other alternative to revising the portfolio is to change the components of the portfolio. Of course, if the market is efficient, current stock prices take into account future events and no stock is overvalued or undervalued.

- ***Indexing:*** Some funds attempt to track the performance of market. This is called indexing. Fund managers do not make decisions about the timing or relative value of collateral.

3.14 MODELS

Some financial models used in Valuation, stock selection, and management of portfolios include:

- Maximize returns & Arbitrage pricing theory.
- Modern-portfolio theory.
- CAPM & VAR model
- Jenson and Treynor index.
- Sharpe Diagonal model

3.15 *POST-MODERN PORTFOLIO THEORY*

The traditional Modern Portfolio Theory (often referred to as Mean Variance Analysis or "MVA") is expanded upon by Postmodern Portfolio Theory (or "PMPT"). It demonstrates how sane investors should assess hazardous assets and use diversity to maximize their portfolios. There is a formal risk-return framework for investment decisions. By defining investment risk quantitatively, he provided investors with a mathematical approach to asset selection and portfolio management.

3.15.1 LIMITATION

Two major limitations of MPT are;

- The return on investment for all securities and portfolios is well represented by a normal distribution.
- Portfolio return variance is a realistic indicator of investment risk.

In other words, it is constrained by risk-reward measure that does not always reflect investment market realities. Standard deviation and normal distribution are the main practical constraints. Moreover, using the normal distribution to model the pattern of investment returns makes the upside of investment outcomes seem riskier than the downside.

It has long been recognized that investors generally do not view returns in excess of the minimum required to achieve their investment objectives as a risk. Under certain conditions, it can be shown that MVA leads to unsatisfactory predictions of (investor's) behavior. Given the problem, he bases his (MV) analysis on the mean and standard deviation.

3.16 PORTFOLIO MANAGER

A team of analysts and researchers are responsible for establishing investment strategies, selecting appropriate investments, and properly allocating each investment. Portfolio managers receive investment ideas from in-house buy-side analysts and investment bank sell-side analysts. Their job is to scrutinize relevant information and make decisions about buying or selling securities. They read reports daily, talk to company executives, and monitor industry and economic trends to find the right companies. Passive management simply tracks an index. Active Management includes a single manager, co-managers who seek above market returns by actively managing the fund's portfolio by making investment decisions based on research and individual holding decisions. End funds are typically actively managed.

4. SECONDARY DATA

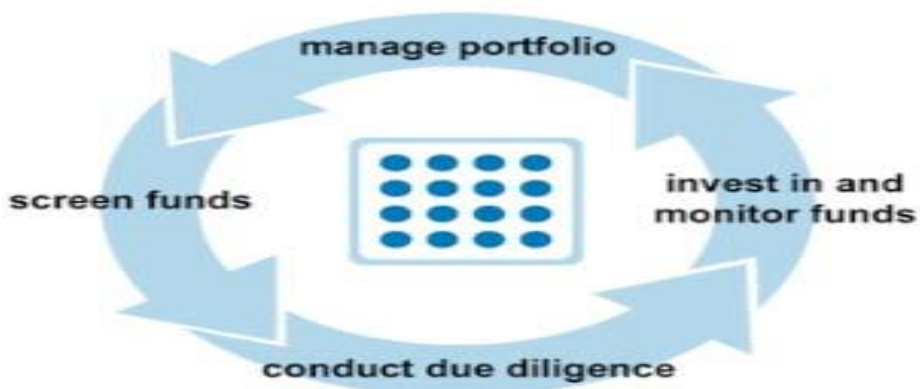
4.1 POINTS FOR REMEMBER IN EQUITY INVESTING:

The main objective of any type of investment is to optimize wealth accumulation. This essentially means that the rate of return should exceed the rate of inflation. Otherwise, the actual value of the investment made will be reduced in net worth. Debt securities and other fixed income products such as income funds and bonds offer consistent returns, but can be subject to inflation over time. To keep capital above inflation is to invest in equity instruments.

4.2 ELECTION OF FUNDS BASED ON PAST PERFORMANCE :

Common drivers of equity returns [value vs. growth, large cap vs. Small Caps, High Beta vs. Low Beta] and cost of investment almost entirely explain the consistency of equity fund returns. Comparing last year's return to next year's return, relatively few funds remain in the first tenth of the rankings, but the top and bottom 10% of funds are more likely to perform.

4.3 INVESTORS WORKFLOW CYCLE:



***Managing Portfolio**:* Build portfolios from underlying funds, test and optimize portfolios, visualize the impact of portfolio changes, and achieve long-term goals with retirement and wealth planner capabilities.

***Screening Funds**:* Subscribing to investment databases, conduct research, compare risk and return statistics, and perform peer group analysis.

***Conducting Due Diligence**:* Storing and updating contact information for managers, references, prime brokers and administrators, organizing offer notes, surveys and other documents, tracking emails, phone calls and meetings.

***Investing in Monitor Funds**:* Managing fund subscriptions and redemptions and track fund performance.

4.4 KEYS TO MAXIMIZEING RETURNS

"It's not the timing of the market that matters; it's the time of the market." Portfolio creation and management is active, not passive. It is well known fact that long-term investment and proper asset allocations are safe and successful ways to build wealth.

4.5 TIPS FOR BUILDING A DEBT PORTFOLIO

Investors rarely encounter situations where both debt and equity offers attractive returns. If you want a debt allocation in your portfolio, it's not a bad time to put some fund into debt. Similarly, those who wish to deposit money for short-term needs can use credit option. Due to the volatility of interest rates, fixed income products, especially bonds such as income and guilt funds, can be riskier in a rising interest rate environment.

Here are some tips to help investors build their debt portfolios.

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- ***Short-term options****:* If the investment horizon is brief, traditional products like fixed deposits, corporate deposits, or even cash management funds offered by mutual funds, may be beneficial for the portfolio.

- ***Medium to long-term options:*** For some investors, capital protection makes debt allocation necessary. As a result, these investors seek out debt instruments that match their risk tolerance. In addition to fixed deposits, these investors can consider fixed maturity plans or monthly income plans.

  For example, options such as a monthly income plan work well if the investor is looking at a 3-5 year term for her. The benefits of indexing help investors achieve more realistic returns by accounting for the impact of inflation on returns. An aggressive investor can invest up to 20-25% in equities and still be considered a debt fund. Risk should not be forgotten, but is minimized by the equity component. Term plans, by comparison, have a much lower equity allocation and are therefore less risky. Regardless of risk profile, all investors need allocations to take advantage of leverage as they need to spread their funds across different assets.

4.6 SOCIALLY RESPONSIBLE INVESTING (SRI)

The term "socially responsible investing," also referred to as "socially conscious investing" or "ethical investing," refers to an investment strategy that aims to maximize both financial gain and social good. In general, socially responsible investors favor corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity. Some avoid businesses involved in alcohol, tobacco, gambling, weapons, the military, and/or abortion.

But in an economic context, socially responsible investing is a compromise. They tend to be less diversified than portfolios without social responsibility requirements and therefore exhibit high volatility without compensation in terms of high returns.

4.7 MANAGING RISK WITH A BALANCED PORTFOLIO

The ability to manage risk is crucial for all investors. This is also the reason that despite having a few acres of land, many families are said to be struggling to fulfil their monthly necessities. The litigation made the liquidation difficult. One such example is gold, which is frequently employed as a risk management tool. Investors should therefore set aside 5–10% of their portfolios for gold. Other possibilities for de-risking portfolios include liability-only products like short-term funds, fixed term plans (FMPs), and non-convertible bonds, as well as fixed-return instruments like term deposits. Properties are a good example in this case. The fact that the property's value will rise reassures the buyer even though there is no assurance of a return.

4.8 BUY NOW & HOLD OR QUIT & FOLD

Even buy-and-hold investors are beginning to question whether they should sell some of their troublesome equities in this chaotic market.Unless the economy is struggling, long-term investors rarely think about selling. In fact, rather than immediately selling equities, traditional buy-and-hold investing urges investors to increase their bad debts through a process called rebalancing. You may assure that you sell high and buy low, for instance, by making a small profit on bonds and commodities-related assets and using that money to buy additional equities during a recession.For instance, he should ask himself a few questions before purchasing an investment to serve as a core holding for the next 20 years.

• If you own individual shares, has the underlying reason for buying it changed?

• "It's the projected earnings growth that ultimately drives the stock price, and the dividend stream, that determines the value of a stock."

• If an expectation for a company's earnings or dividends has changed significantly, it could be time to reconsider.

• If you are mutual fund investors, you should ask yourselves how your fund has performed over time, especially relative to peers.

4.9 MANAGE YOUR MONEY BETTER BY MOVING IT

According to financial experts, investors should preferably stick to a predetermined equity-debt allocation and make adjustments to their investments once or twice a year. An investor should preferably adhere to a specified equity-liability ratio and change his investment accordingly once or twice a year, according to the financial advisor. It is crucial to remember that if a holding hasn't been held for more than a year, investors must pay a 15% short-term capital gains tax. And that implies a sharp decline in returns.

4.10 SEEK THE RIGHT BALANCE

Looking at performances of equity-oriented mixed funds over the past few year yields surprising results. Despite being labeled as a balanced fund, most investors invest 65-80% of their stock in equities. "It's as good as a diversified stock program." Because of this, financial planners say they typically ask client to create their own balance of funds. Only investors who find this asset allocation cumbersome to maintain can turn to mixed funds that handle this task automatically. Mixed funds maintain a more middle-aged (age 40-45) distribution. These funds are also suitable for investors looking to move from minimal equity to more equity allocations. Choose a fund with a stable asset allocation and a debt ratio of 25% or higher.

4.11 ASSET ALLOCATION IMPORTANCE

How does asset allocation work?

Choosing how to split our wealth among several investment classes, such as stocks, bonds, real estate, and cash, requires developing an asset allocation plan. This is done at the beginning of the journey and is the foundation of all financial planning processes.

How do we choose how to allocate our assets?

Based on factors including our age, income, capital inflows and outflows, capacity for risk, and investor profiles as conservative, aggressive, or moderate, a financial planner develops a financial plan for us.

4.12 COMMON MISTAKES THAT CARELESS INVESTORS MAKE

Some of the common mistakes that careless investors make are:

- ***Don't have a financial goal:*** Our rides have speed limits, traffic lights and "speeding" pedestrians. You may reach your goal a little later, and you may burn more fuel (your investment may not give you the desired return), but don't lose sight of your ultimate goal. Need to take more risks. Keep an eye on our asset allocation.

- ***Target maximizing return on all investment:*** Many times have I switched lanes around town to the 'fast' lane, and I've found the first 'investment' to be better. It's unwise to bet the stock market on the savings you need to make the promised payments over the next three months. Stocks are long-term investments only.

- ***Aim for safety maximization:*** Financial targets that which are 3 years or more should be properly evaluated rather than comparing investments week to week. We should focus on after-tax and inflation-adjusted returns.

- ***Do-it-Yourself Mania:***

  The mantra is that three conditions must coexist: detailed financial understanding; (full) available time; and the ability to take emotion out of investment decisions (bad choices can be sold at a loss) - only then can a qualified financial advisor be left out."

5. PRIMARY DATA

SELECTING THE SAMPLE

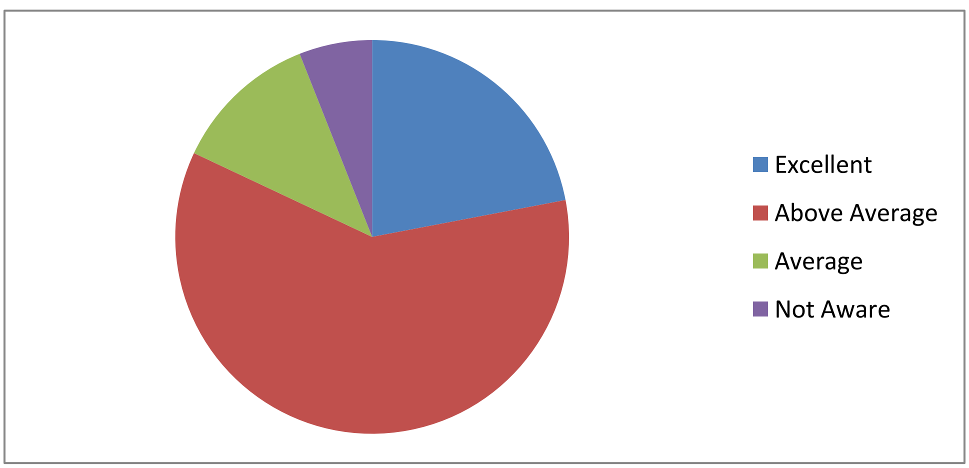
A survey with a certain number of respondents was undertaken to gather information about the study. In order to choose the respondents, a random sample procedure was used. Samples would be selected to represent different potential investments or funds within a portfolio. Through a questionnaire, information was primarily gathered on different age groups, their risk appetite, principal safety, liquidity, and risk perception. Following the "Simple Random Sampling" method, we chose respondents while keeping this viewpoint in mind. The participants were chosen at random. Only 50 respondents were chosen for the study due to a lack of time and resources.

Q1. How you view economy of the country in current scenario?

TABLE 1:

Excellent	11	22%
Above Average	30	60%
Average	6	12%
Not Aware	3	6%

CHART 1:

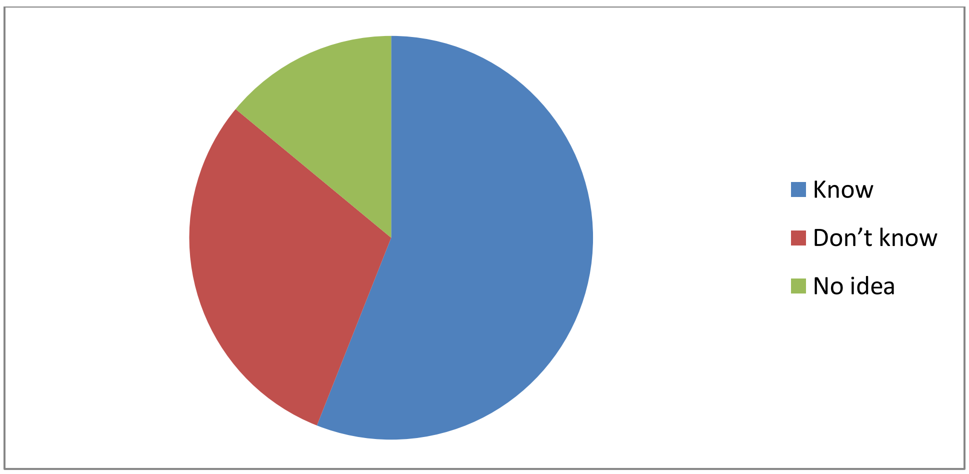


Q2. Are you aware of all investing option in the market?

TABLE 2:

Know	28	56%
Don't know	15	30%
No idea	7	14%

CHART 2:

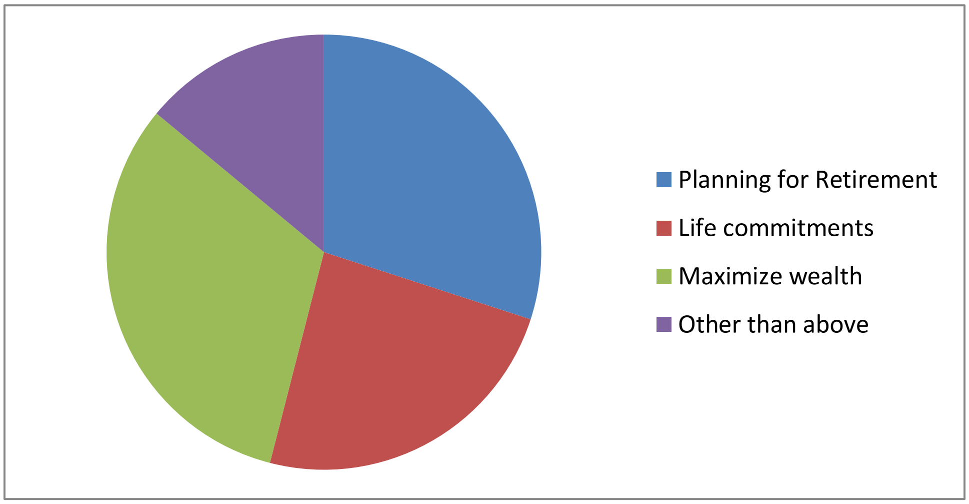


Q3. Why do you do investment?

TABLE 3:

Planning for Retirement	15	30%
Life commitments	12	24%
Maximize wealth	16	32%
Other than above	7	14%

CHART 3: INTERPRETATION:

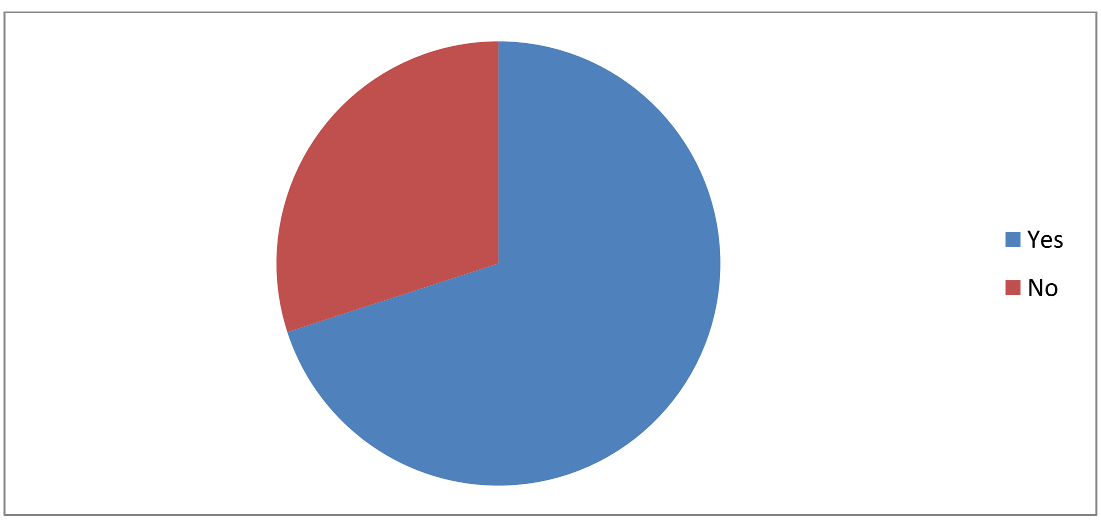


Q4. Are you reviewing portfolio regularly?

TABLE 4:

Yes	35	70%
No	15	30%

CHART 4:

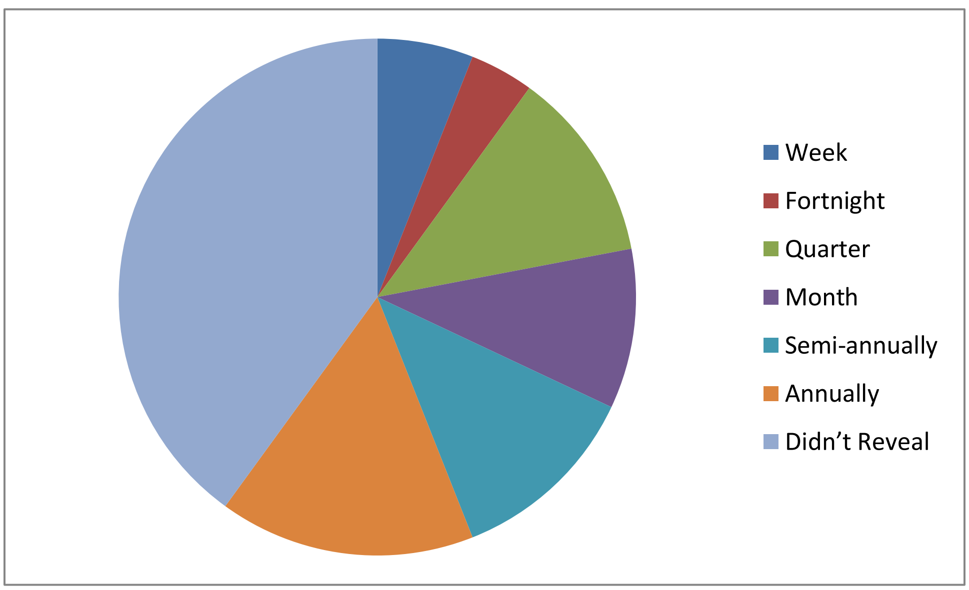


Q5. If yes, then why and how often you review?

TABLE 5:

Week	3	6%
Fortnight	2	4%
Quarter	6	12%
Month	5	10%
Semi-annually	6	12%
Annually	8	16%
Didn’t Reveal	20	40%

CHART 5:

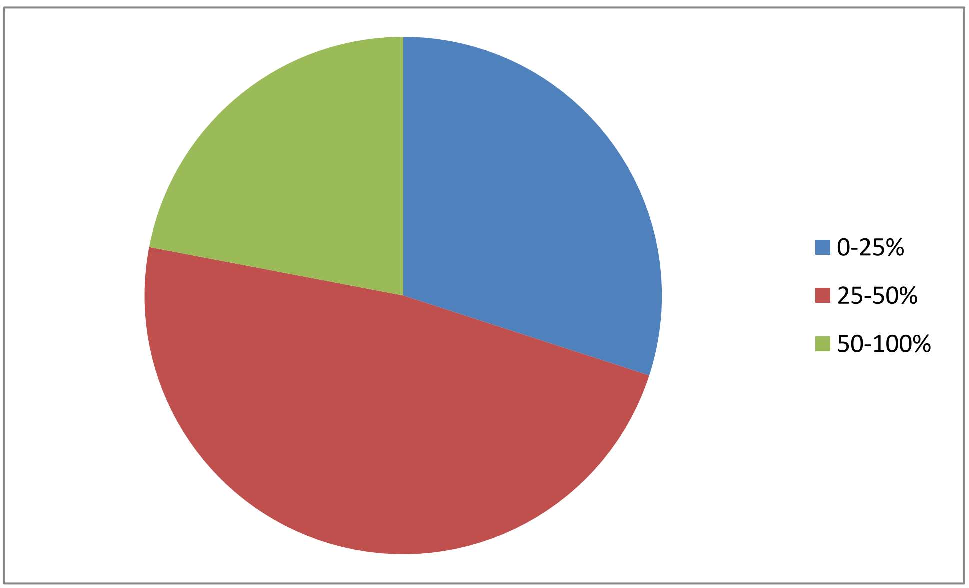


Q6. How much percentage in your portfolio you will allocate in equities

TABLE 6:

0-25%	15	30%
25-50%	24	48%
50-100%	11	22%

CHART6:

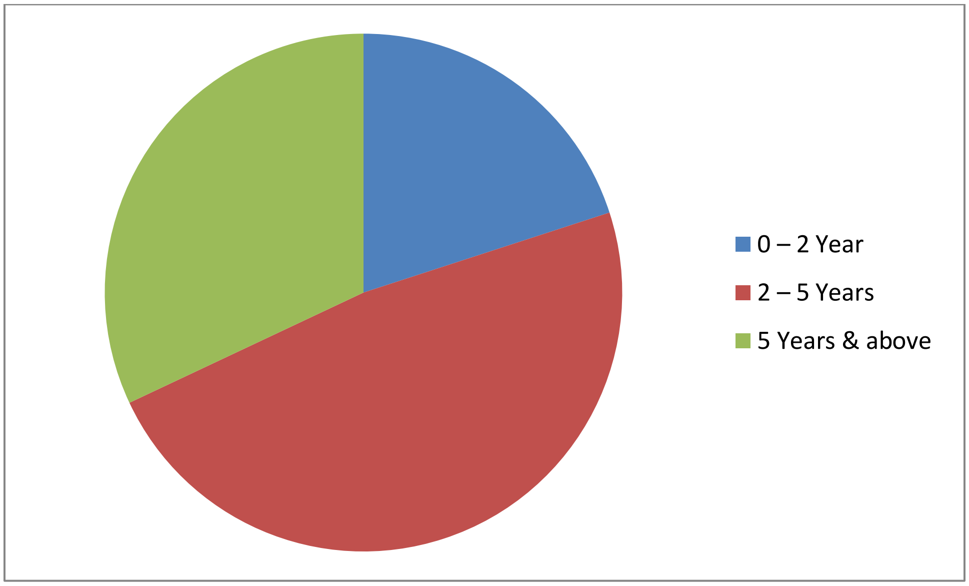


Q.7. How long you are planning to invest?

TABLE 7:

0 – 2 Year	10	20%
2 – 5 Years	24	48%
5 Years & above	16	32%

CHART 7:

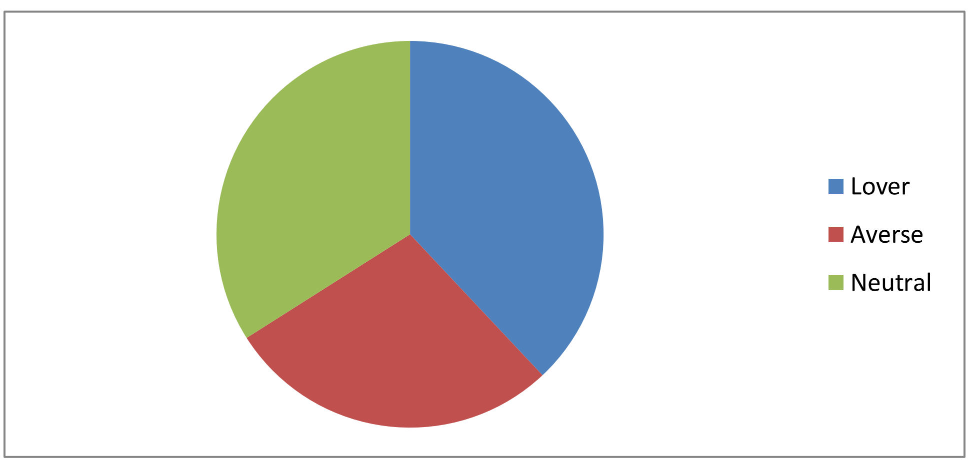


Q8.What is your risk taking abilities and perception?

TABLE 8:

Lover	19	38%
Averse	14	28%
Neutral	17	34%

:

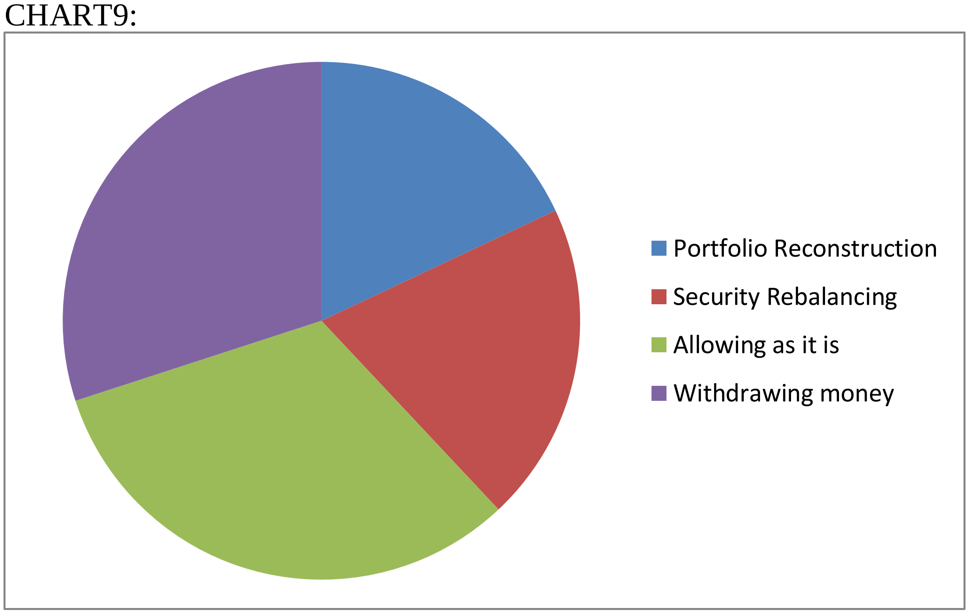


Q9. What do you when portfolio is stagnant or moving in negative direction?

TABLE 9:

Portfolio Reconstruction	9	18%
Security Rebalancing	10	20%
Allowing as it is	16	32%
Withdrawing money	15	30%

CHART9:

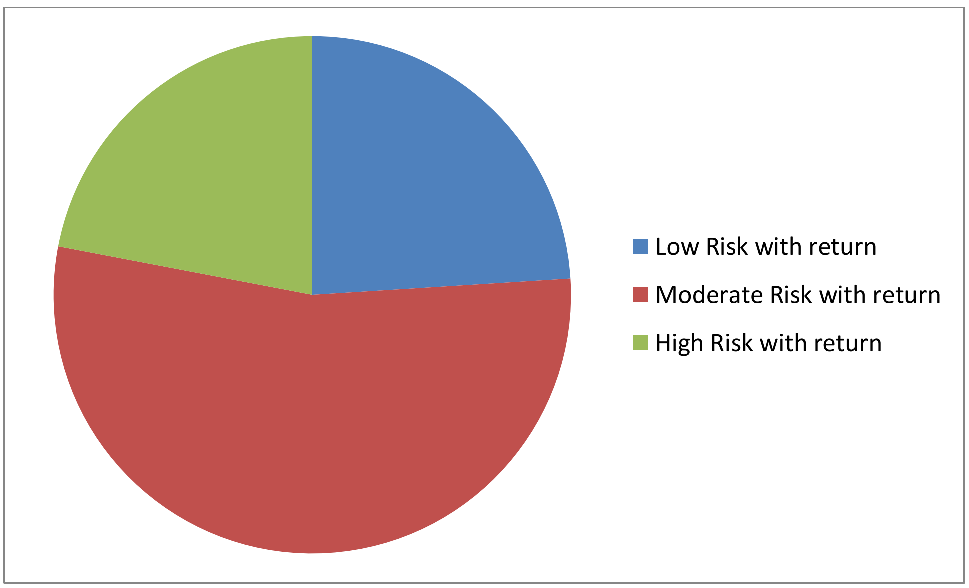


Q10. What will you prefer?

TABLE 10:

Low Risk with return	12	24%
Moderate Risk with return	27	54%
High Risk with return	11	22%

CHART 10:



6. DATA ANALYSIS

According to the basic data gathered via questionnaire and its interpretation, the majority of investors place a high importance on keeping their money safe. As a result, some investors prioritize getting their money back before seeking to maximize their gains. The findings also reveal that most investors diversify their assets into balanced funds like equities as well as bonds and other fixed income products because they desire moderate return with moderate risk. This ensures that their investment is secure and generates respectable returns.

According to the analysis above, "Most investors don't use return as their primary investment criterion; instead, they look at risk, liquidity, principal safety, etc."

7. CONCLUSION AND RECOMMENDATION

According to the poll mentioned above, the majority of respondents believe that the Indian economy is functioning well despite the current global economic downturn.

- Of the respondents, 56% are aware of the current investment choices. This demonstrates that the remaining respondents lack knowledge and understanding of the available investing possibilities.
- The majority of respondents' (32%) primary investment goal is wealth accumulation. This demonstrates that by investing for a longer duration, the majority of them do it primarily to create wealth.
- Of those surveyed, 70% go over their portfolio. This demonstrates that the majority of investors is concerned about their investments and enjoys monitoring market conditions and volatility The majority of respondents (48%) invest over a period of two to five years. This demonstrates how they frequently adjust their portfolio's tilt in response to changes in the market and portfolio performance. If there is a loss in a shorter time frame, they will attempt to make up for it in a longer time frame by increasing wealth.
- 38% of respondents admitted to taking risks. This demonstrates that the majority of them have a propensity to take risks and invest in risky assets. Additionally, 34% of the respondents are risk averse. Therefore, the majority of investors straddle the line between taking too much risk and taking some risk.
- 54% of respondents said they preferred moderate risk with modest return. This demonstrates that half of the respondents diversify their investments among risky and non-hazardous assets rather than taking a significant risk by investing in risky assets.

Although the yield from these types of investment opportunities is quite low, the majority of middle class earners in India has historically been risk conservative and has parked the majority of their assets in Fixed Deposits and Other assets Accounts. However, there has been a recent trend where more people are drawn to investing in mutual funds and stocks.

We anticipate that investors may see higher anomalous returns if they heed these **recommendations**:

- The investors' investing goals, tax situation, and risk tolerance should be crystal obvious to them. The only other way the portfolio managers can create portfolios or provide advice.
- Your investment should be with a reputable company. Before making an investment, we should be informed of the company's criteria.
- For better returns, the investment should be made with caution, taking into account historical performance, the state of the market, and potential future risk. By periodically monitoring market volatility to avoid taking on too much risk, equity investments should be made in a fashion that guarantees a guaranteed return.
- We advise long-term equity investments when they are consistent with an investor's goals. For periods of ten years or more, equities often give superior returns than alternative investment classes.
- When managing the investment portfolio, it's important to keep in mind that the riskier strategic investments should always be balanced with more conservative investments because, although equity prices may be erratic on a day-to-day basis, the effects of this are diminished over time if prices are on the rise. It is necessary to regularly assess the investment mix to determine which investments are on track.
- How much of each should a person have in their portfolio depends on whether they need a balance of stocks and bonds. If they are concerned about inflation, we might consider employing some RRBs (Real Return Bonds), high-quality corporate bonds to boost yield, lessen sensitivity to interest rate increases, and keep their tenure relatively brief.

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