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A Study on Efficiency Analysis of Portfolio Creation by Considering Risk Factor in India Infoline Ltd with special reference to Cochin.

R.Murugesan
Assistant Professor/MBA
PSV.College of Engineering & Technology- Krishnagiri
murugesanpsv@yahoo.in ,
Name of Auothor :Dr.T.Vetrivel
Professor & Head /MBA
Velalar College of Engineering & Technology- Erode
vetreemba@gmail.com

Abstract

The articles are to find investors investing their entire savings in a single security instead they tend to invest in a group of securities. Such a group of securities is called portfolios. Creation of portfolio helps to reduce to risk without sacrificing returns. Portfolio management deals with the analysis of individuals securities. As well as with the theory and practice of optimally combing securities into portfolios and investor who understand the fundamentals principals and analytical aspects of portfolio management have a better chance of success. Risk in inherent in any investment. Nonpayment of interest or variability if returns while some investment like government securities and bank deposits are almost riskless. Others are more risky. Risk and returns of investments are related. Normally, the higher is the risk the higher is the returns. The articles conducted for the India info line limited is basically carried out to study the portfolio creation and to find out the risk factors effecting the portfolio creation and to find out the risk factors affecting the portfolio creation and to analysis the performance of investment by conducting the financial survey, the researcher analysis that the selection of financial instruments depends on many factors. And also willingness to take risk depends up on the age group .the researcher makes a relation between age group and risk affordability of the investors.

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Key Words: investors, instead, fundamentals, returns, carried out,

Chapter-I

1.1. Introduction

Investing in securities such as shares, debentures and bonds is profitable as well as exciting. It is needed rewarding, but involves a great deal of risk and calls for scientific knowledge as well as artistic skill. In such investments, both rational as well as emotional responses are involved. Investing in financial securities is now considered to be one of the best avenues for investing one's savings while it is acknowledged to be one of the most risky avenues of investment.

It is rare to find investors investing their entire savings in a single security. Instead, they tend to invest in a group of securities. Such a group of securities is called a portfolio. Creation of a portfolio helps to reduce risk without sacrificing returns. Portfolio management deals with the analysis of individual securities as well as with the theory and practice of optimally combing securities in to portfolios. An investor who understands the fundamental principles and analytical aspects of portfolio management have a better chance of success.

An investor considering investments in securities is faced with the problem of choosing from among a large number of securities. His choice depends upon the risk return characteristics of individual securities. He would attempt to choose the most desirable securities and like you allocate his funds over this group of securities. Again he is faced with the problem of deciding which securities to hold and how much to invest in each. The investor faces an infinite number of possible portfolios differ from those of individual securities combining to form a portfolio. The investor tries to choose the optimal portfolio taking in to consideration the risk return characteristics of all possible portfolios.

Chapter-II

2.1 objective of the study

- To study the relationship about risk factor and return.

- To study the risk and return of the firm.
- To study the relationship between age factor and risk affordability of investors.
- To provide a guideline to investors to make an efficient portfolio by considering risk factor.

2.2 Scope of the study

By conducting the financial survey, the research analysis that the selection of financial instruments depends on many factors. And also willingness to take risk depends upon the age group. The researcher gives certain guidelines to the investors on the basis of study.

- The research gives suitable guidelines for the selection of investment instrument for different age group
- The researcher makes a relation between age group and risk affordability of the investors
- The researcher also analyze the influence of risk factors on return

2.2 limitations of the study

While conducting the financial survey, the researcher came across certain limitations. The main limitations are:

- The study was purely based on investor's opinion. It may or may not be accurate.
- The sample size collected for the research is only 50 samples, so the accurate result cannot be derived.
- The time allocated to the study is limited.
- The investors are very busy with online trading activities, it also affect the accuracy level of answering the questionnaire.

Chapter-III

3.1. Research Methodology

3.1. Research type: Descriptive type of research is using in this study. Descriptive research includes surveys and fact- findings enquiries of different kinds. The major purpose of descriptive research id description of the sati of affairs as it exists at present. The main characteristics of this method are that the researcher has no control over the variables.

3.2. Research design: Research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. A good research purpose design, which minimize the bias and maximize the reliability of data collected and analyzed.

3.3. Sampling design Sampling design is used in this study. Sampling design deals with the method of selecting items to be observed for the given study. This study is conducted on India Info line Ltd Financial service and this data collection is Dore on investors only. The selection procedure is randomly selection pattern. Random selection means do not consider any factor for selecting the investors.

3.4. Methods of data collection

(i) Primary data collection

(ii) Secondary data collection

3.5. used for statistical tools

The tools employed for the purpose of the study, which are powerful tools of financial analysis. The tools used for the study are :

- Correlation analysis
- Chi square test
- Percentage analysis

3.2. Review of literature

Review of literature is an integral part of any research studies which includes other researches points and findings. The main aim of including review of literature to any research process is which give suitable support and guidance to accomplish the new research process. Any review of literature includes objectives, research methodology and findings. Review of literature chapter of any studies is the collection of various studies done by various researcher in same topic or related topic in every studies each and every researchers are followed different method for accomplish his objectives. Each studies are giving more and suitable ideas for accomplish the new researchers objectives. Each studies are giving more and suitable ideas for accomplish the new researchers objectives. In the study, the researcher using ten different researchers and it support to make a good inclusion to this study.

John barrickman conducted a study on the "Three deadly sins of portfolio credit management". It is determined that the traditional rules for allocating assets, making investment decision, gauging upside and weighing risk-returns are all changing. So now a day the investor has been investing money in bank deposits or debt markets. However equity is placed on the top of the chart. It is because of the buoyancy in the economy

Narendra jadav conducted a study on the "Debt market in India". The debt market in India continues to be dominated by the government securities by the government securities market. There are mainly three reasons for this. First and foremost is a good and diversified debt market along with equity market in a diversified financial system of banks, and non banks. The second is good and sound debt market act as a back stop for the banking system and has the potential of moving the crisis outside the banking system.

Sunil nayanar conducted a study on "Fund IPOs, Pause and Pick" and examined that during the past few months, mutual funds have been falling over one another to launch equity scheme. Funds come in all shapes and sizes but if you are a mutual fund investor, you have to cut to the core. Names and not indicators of fund performance.

Subhash.k.jha conducted a study on "Foreign funds look past Indian politics" and he examined that foreign funds have poured into India to buy selected despite growing political uncertainty. Political confusion has not deferred foreign investors who appear willing to brave the political risk in order to pick up good stocks on cheap.

Gene.d.guill made a study on "The challenges and opportunities in credit portfolio management" and came to a conclusion that for the past twenty years there is a growth in liquidity of credit market and active management of credit risk are among the most significant developments in commercial banking. The main reason for growth of the credit portfolio management is due to the improvement of the financial performance of the large corporate loan portfolios in commercial banks. So these portfolios proved to be the source of recurring problems and the cause of failure for many banking institution.

Patrick.f.reidy examined “The changing skills requirements in corporate credit portfolio management” and he noticed that there are certain skills which are needed for credit portfolio management for the effective implementation, certain training should be given. There is a lot of change had happened in the modern portfolio management of bank assets. Today the portfolio management should have knowledge about risk/ return parameters etc. traditional training mainly focus on individual loan and it also focused on the analysis of firm’s management, operations, and financial structure.

Dian vujovich conducted a study on “ Portfolio management risk” and he examined that risk is one of the important factors which are to be taken into consideration while going for an investment. During the end of first quarter 2000 there is a high rise in the performance of mutual funds. But there are lot of variations happened in the market. Risk means the investment might not make money, or we could loose our initial investment. Balance, flexible and asset allocation funds are considered to be the least risk because the money is invested in both stocks and bonds

Manuel schiffnes conducted a study on “The best funds for your goals” and examined that during the coming years the people are investing their money by putting on US stocks, and the bigger companies. The main problem arising here is the investing of money in which financial investment. Whether it is to go for equity or bond, there are certain verifies you can be guided by designing our own investment plan. The advantage of stock over bonds stands to reason because a share holder is an owner of the enterprise, while a bond holder is only a lender to it. The share holder will get benefits of business growth, but the bond holder merely gets paid back, generally of a fixed rate of interest

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Peter larr, Arthur stamptemon conducted a study on "Measuring and controlling the risk in portfolio management" and it concluded that the concept of portfolio management is explored and implemented by banks around the country. These concepts apply to a broad spectrum of banks, not necessarily to any particular banks. Mainly banks are using this portfolio management. Each banks differs in their portfolio management. Some banks use this portfolio management for their identification of measured risk exposure that is controlled in the context of defied risk tolerance. There are other banks may prefer describing portfolio management as tool to minimize aggregate risk problems.

Chapter- IV

4.0.Data Analysis and Interpretation

4.0. Statistical analysis

Statistical analysis is a integral part of any research study. The main use of including this part in any research work is it will support the researcher's findings. In this study the researcher is using chi-square test.

Statistical tools used

4.1. Chi-square test

This is one of the useful measures of comparing experimentally obtained result with those expected theoretically and based on the hypothesis. It is used as a test statistic in testing a hypothesis that provides a set of theoretical frequency with which frequencies are compared. Chi-square tests enable as to find out the degrees of discrepancy between observed frequency and theoretical frequencies. This test was first used in testing statistical hypothesis by Karl Pearson in the year 1900.

Uses of chi - square test

- Test of goodness of fit
- Test of independence of attributes
- Test of homogeneity etc

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Hypothesis testing

Ho: There is no significant relation between risk factor and risk tolerance of investors

H1: There is a significant relation between risk factor and risk tolerance of investors

Observed frequencies

TABLE NO -1

Opinion of investors	Risk factor influence return	Risk tolerance level of investors	Total
Yes	75	70	145
No	45	50	95
Total	120	120	240

TABLE NO -2

O	E	(O-E)	(O-E)2	(O-E)2 ⁄ E
75	72.5	2.5	6.25	.086
70	72.5	2.5	6.25	.086
45	47.5	-2.5	6.25	.013
50	47.5	-2.5	6.25	.013
240	**24O**	**0**	**25**	**0.198**

Chi-square value

TABLE NO- 3

Calculated value	Table value @ 5%	Degree of freedom	Remarks

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0.198	3.411	1	H1 is accepted

Level of significance is 5%

Degree of freedom is[(r-1) (c-1)] =1

Result: As the calculated value is less than the table value alternative hypothesis is H1 is accepted. So there is significant relation between risk factor and the risk tolerance level of investors.

4.2. Correlation analysis

Meaning:

Correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring extend of the relation between two variables. It is a measure of closeness of two variables.

Karl Pearson's coefficient of correlation

Karl Pearson (1857-1936) was a great statistician. He gave the following mathematical formula for measuring the magnitude of linear correlation coefficient between two variables. Here the researcher uses the correlation method, to find out the relation between risk factor and the age group. Here the risk factor is taken as the X variable and age factor as Y variable. Then the correlation coefficient

Formula:

$$r = \frac{N\sum Fxy-(\sum fx)(\sum fy)}{N\sum fx2-(\sum fx)2\sqrt{N\sum Fy2-(\sum fy)2}}$$

Table multiple correlation analysis

Substitute the above value in Karl Pearson's coefficient correlation formula

16-{-26* -12/120}

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$$R = \frac{\qquad}{\sqrt{(26-(-26)2/120)}\ \sqrt{(104-(-12)2/120)}}$$

= 0.760583

Chapter- V

5.1. Findings

- More investors are preferring mutual funds as their investment avenue. 40% of the people are giving preference to invest in mutual funds.
- The major factor that influences the investment decisions of the investors is safety on the investment. 41% of the investors has responded as safety as the factor that influence their investment decision. 32% of the respondents considered return as a factor that influence their investment decision.
- It was observed that risk factor is the most important factor that influences the investment decision of an investor.
- In the present scenario although the investors consider safety on their investments is a factor that influence their investment decision, they are ready to bear some risk on their investments.
- It was analyzed that the risk involved in the investment and the return on investment are interrelated.
- It was analyzed that the age factor influences the risk bearing capacity of the investors.
- It is observed that middle income earning peoples mostly invested in shares.
- 54% of the people interested to invest in different companies shares.

- ❖ It was observed that foreign exchange, budget, natural calamities, dividend policy etc affect the share price. Majority of the people said that foreign exchange mostly affect the share price.
- ❖ 79% peoples are checking the share price fluctuations daily.

5.2. Suggestions

- ➢ The investor can read newspapers, business journals, websites, etc. to get the awareness about the stock market situations and factors affecting the stock market. He should give key attention on the activities of the major players in the market.
- ➢ Invest future orient ally then only get good return
- ➢ Peoples can maintain portfolio investment by selecting securities from different sectors.
- ➢ Before entering to risk reduction strategy the investor determine the level of his risk and how to reduce his risk.
- ➢ Try to invest in constant growth and constant return companies
- ➢ Understand the share price fluctuations
- ➢ The investor should not stick to one strategy in the whole time he should change his strategies according to the market situations.

5.3. Conclusion

In this study, it was observed that the risk and return on investments are interrelated. A good majority of the investors are interested in preferring mutual funds as their investment avenue. This shows the increasing publicity of the portfolio investments. The researcher found that the ability of risk taking mentality in investment is related with respect of age. The age factor and risk affordability of investors are inversely related.

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