A Study on Overview of Financial Portfolio Management

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Abstract- *In the globalization era, Portfolio Management play an important role in investment of securities. It is much more than the selection of securities from a catalogue by a financial consultant or the application of a formula to a set of financial data input supplied by a security analyst. Portfolio management is a decisive element for the good performance of new product development and compliance with business objectives because it not only defines new product projects but also defines reviews, updates, and even decisions regarding the discontinuation of products that are produced and commercialized. The framework proposed in this article presents a holistic perspective of portfolio management, suggesting the use of a set of formal management methods for not only evaluating product projects but also covering to organisational features and including them in strategic planning and portfolio reviews.*

Keywords- Portfolio Management; Risk; Securities; Financial Data; Investment; Diversification.

I. INTRODUCTION

An investor seeing investments in securities is handled with the problem of electing from among a large number of securities and how to allocate his funds over this group of securities. Again the investor faced with the problem of deciding which securities is to be hold and how much to invest in each security. Basically risk and return are the two important characteristics of portfolio. The investor tries to choose the optimal portfolio taking into consideration the risk and return characteristics of all possible portfolios. The characteristics of individual securities as well as portfolio also change. This calls for periodic review and revision of investment portfolio of investors.

An investor always invests his funds in a portfolio expecting to get good returns consistent with the risk that he has to bear. The return understood after the portfolio has to be measured and the presentation of the portfolio has to be evaluated.

A Portfolio Management refers to the science of analysing the strengths, weaknesses, project, what is the goals of project, what is the resources of project to be implemented and opportunities and threats for performing wide range of activities related to the one's portfolio for maximizing the return at a given risk After analysing the factors investor evaluate the project or security in financial term such as Return of portfolio, risk of portfolio, after that the organization according to organization strategy will chose the security or project. Portfolio Management consists of two word i.e. Portfolio and Management. The meaning of this is as follows

Portfolio: Portfolio is group of financial assets such as shares, stock, bond, debt instruments, cash equivalent etc. A portfolio is planned to stabilize the risk of non-performance of various pools of investment.

Management: Management is organization and coordination of the activities of an enterprise in accordance with well - defined policies and in achievement of its predefined goal and objective. Now let comprehended the meaning of the term portfolio management.

Portfolio Management: It leaders the shareholder in a technique of choosing the best accessible securities that will provide the expected rate of return for any given degree of risk and also to migrate the risk. It is a strategic decision which is addressed by top level management. Portfolio is combination of security such as Stocks Bonds and Money market Instruments. The process of blending together the broad Asset classes so as to obtain optimum return with minimum risk is called portfolio management. Diversification of investments helps to spread risk over many assets.

II. SCOPE OF PORFOLIO MANAGEMEN

- Portfolio management is a continuous process. It is a dynamic activity. The following are the basic operations of a portfolio management.
- Identification of the investor's objective, constraints and preferences.

- Making revision in the portfolio.
- Implementation of the strategies in tune with investment objectives.

III. EVOLUTION OF PORTFOLIO

Portfolio management is basically a systematic method of keeping one's share professionally. Many factors have contributed to the existence and developments of the concept. In the early years of the century analyst used financial statements to find the value of the securities. The first to be analysed using this was Railroad Securities of the USA. A book named "The Anatomy of the Railroad "was published by Thomas F. Wood lock in 1900. As time progressed this method became very important in the investment field, although most of the writers adopted different ways to publish their data.

They generally advocated the use of different ratios for this purpose. John Moody in his book" The art of Wall Street investing" strongly supported the use of financial ratio to know the worth of the investment.

The other major method adopted was the study of stock price movement with the help of price charts. This method later on was known as **Technical Analysis**. It evolved during 1900-1902 Charles H. Dow, the founder of the Dow Jones and Co. presented his view in the series of editorials in the Wall Street Journal in USA. The advocates of technical analysis believed that stock prices movement is ordered and systematic and the definite pattern could be identified. Their investment strategy was built around the identification of the trend and pattern in the stock price movement.

IV. ROLE OF PORTFOLIO MANGEMENT

There was a time when portfolio management was an exotic term. A practice which is beyond the reach of the small investor, but the time has changed now. Portfolio management is now a common term and is widely practiced in INDIA. The theories and concepts relating to portfolio management now find their way in the front pages of the financial newspapers and magazines. In early 90‘s India embarked on a program of economic liberalization and globalization, with high participation of private players. This reform process has made the Indian industry efficient, with rapid computerization, increased market transparency, better infrastructure and customer services, closer integration and higher volume. The markets are dominated by large institutional investors with their diversified portfolios. A large number of mutual funds have come up in the market since 1987. With this development investment in securities has gained considerable momentum.

Along with the spread of the securities investment way among Indian investors have changed due to the development of the quantitative techniques. Professional portfolio management, backed by research is now being adopted by mutual funds, investment consultants, individual investors and big brokers. The Securities Exchange Board of India (SEBI) is a regulatory body in INDIA. It ensures that the stock market is free from fraud, and of course the main objective is to ensure that the investor‘s money is safe.

Portfolio management is the only way through which an investor can get good returns, while minimizing risk at the same time. So portfolio management objectives can be stated as: -

Risk minimization.
Safeguarding capital.
Capital Appreciation.
Choosing optimal mix of securities.
Keeping track on performance.

V. APPROACHES IN PORTFOLIO CONSTRUCTION

In the portfolio theory investor apply many tools and techniques for maximum benefits at lower risk. There are two approaches that followed by investor in portfolio construction

Traditional Approach: Traditional approach evaluates the entire financial plan of the individual. The traditional approach basically deals with two major decisions

*Determining the objectives of the portfolio
*Selection of securities to be included in the portfolio.

Steps in Traditional Approach

1. Analysis of constraints: Investors analysis constraints that are as follows.

- income Needs
  Need for current income and need for constant income
- Liquidity
- Safety of the principal
- Time horizon
- Tax consideration
- Temperament

2. Determination of objectives

The common objectives are stated below

- Current income
- Growth in
- Capital appreciation
- Preservation of capital

3. Selection of portfolio

- Objectives
- growth of income
- Capital appreciation
- Safety of principal
- Risk and return analysis

Modern Approach: Modern approach gives more attention to the process of selecting the portfolio. The selection is based on the risk and return analysis. Returns includes the market return and dividend. Investor are assumed to be indifferent towards the form of return. The final steps is asset allocation process that is to choose the portfolio that meets the requirement of the investor. Investor can adopt passive approach or active approach towards the management of the portfolio. In the passive approach the investor would maintain the percentage allocation of the asset classes and keep the security holding within its place over the established holding period. In the active approach the investor continuously assess the risk and return of the securities within the assets classes and changes them accordingly.

Portfolio risk can be reduced by the simplest kind of diversification. In the case of common stocks diversification reduces the unsystematic risk or unique risk. Analysts says that if 15 stocks are added in a portfolio of the investor, the unsystematic risk can be reduced to zero. But at the same time if the number exceed 15, additional risk reduction cannot be gained. But diversification cannot reduced systematic or un diversifiable risk.

The Markowitz Model: Harry Markowitz published an article on portfolio selection in the journal of finance in march 1952.His publication indicated the importance of correlation among the different stocks return in the construction of a stock portfolio. After the publication of this paper, numerous investment firms and portfolio managers developed ‘Markowitz algorithms’ to minimize risk. Markowitz Model of portfolio management have followings assumptions.

- The individual investor estimates risk on the basis of variability of returns i.e. the variance of the returns
- Investor’s decision is solely based on the expected return and variance of returns only for a given level of risk, investor prefers higher return to lower return.

VI. CONCLUSION

From the above it is concluded that Portfolio is a combination of various securities. Portfolio can be constructed with the help of Traditional approach and Modern Approach. The main objective of portfolio management is to help the investor in investing in various securities so, that risk is to be minimized and to get higher yield of return. In traditional approach the constraints, investors need for current income and constant income is analysed. The basic objectives of portfolio are current income, constant income, preservation of capital, capital appreciation. As per the objective of portfolio whether it is a stock portfolio or bond portfolio or combination of both is to be decided. After that, equity component of the portfolio is chosen.

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