International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

A Study of Diversification Application in Portfolio Management

Madhuri Dhanrjbhai Lohana[1], Dhruvilkumar Sharma[1], Dr. Purvi Derashri[2]

1Student, PIET (MBA), Parul University, Vadodara 391760, India

[2] Associate Professor,Parul Institute of Management & Research(MBA), Parul University,Vadodara 391760, India

200617200110@paruluniversity.ac.in

ABSTRACT

Portfolio management is putting together and monitoring a portfolio of investments that will meet an investor's long-term financial objectives and risk tolerance. Any institution's ability to establish an investment portfolio is seen as vital. Portfolio asset management can be structured in a variety of ways to reduce and measure risk. It is possible to do so utilizing a variety of investment vehicles, including equity, mutual, and borrowed funds. The major goal of employing diverse strategies is to optimize the portfolio data. Portfolio management is putting together and monitoring a portfolio of investments that will meet an investor's long-term financial objectives and risk tolerance. Any institution's ability to establish an investment portfolio is seen as vital. Portfolio asset management can be structured in a variety of ways to reduce and measure risk. It is possible to do so utilizing a variety of investment vehicles, including equity, mutual, and borrowed funds. The major goal of employing diverse strategies is to optimize the portfolio data. The key goal is to choose appropriate investing criteria, such as whether we want higher returns, or whether we should consider risk factors, liquidity, or principal safety. We may use these to create our portfolio objectives, build our portfolio based on our needs, and manage it in light of market conditions and how securities are performing in the market.

INTRODUCTION

Diversification refers to not putting all of your money into one sector. For example, if you invest all of your money in one stock, or all of your money in technology stocks, and those stocks fall in value, you might lose everything. True diversity protects you from loss since it ensures that even if one of your financial assets entirely collapses, the rest of your portfolio will remain intact.

Diversification is a risk management strategy that spreads investments over a variety of financial instruments, industries, and other categories to reduce risk. The goal of this strategy is to maximize profits by investing in a variety of sectors that will produce higher long-term returns.

Although it does not guarantee against loss, most experienced investors feel that it is the most crucial component of accomplishing long-term financial goals while decreasing risk.

Simply said, diversification means "DON'T PUT ALL YOUR EGG IN ONE BASKET." All of the eggs will be broken if the basket is dropped. It's more varied to put each egg in a separate basket. There's a higher chance of losing one egg, but a lower chance of losing all of them.

Typically, investors and fund managers diversify their investments among several asset classes and choose how much of the portfolio should be allocated to each.

PORTFOLIO:

A portfolio is "a collection of securities owned by an investor," according to the SEBI definition.

It denotes a person's "overall holdings of securities." It is made up of a variety of assets and securities.

A portfolio is a suitable mix or collection of investments owned by an institution or an individual in finance.

Diversification is a risk-limiting approach that involves owning many assets. By owning multiple assets, certain types of risk can be mitigated. Stocks, bonds, options, warrants, gold certificates, real estate, future contracts, production facilities, and any other object believed to preserve its worth could be included in the portfolio.

PORTFOLIO MANAGEMENT:

Portfolio management is the art of establishing the best investment policy for an individual in terms of least risk and maximum return.
Portfolio management is the process of managing an individual's investments, such as bonds, stocks, cash, and mutual funds, in order to maximize returns within a set time frame.
The term "portfolio management" refers to an individual's money being managed under the expert guidance of a portfolio manager.

OBJECTIVES:

The primary objectives of portfolio management are to minimize risk and maximizing return. And other objects are as follows –
(1) Diversification of investment: In order to the diversification investment portfolio is taken. None only invest in a single asset invest in a various asset is less risky.
(2) Safety of capital: In order to esurient of an investment portfolio is taken.
(3) Fixed income: Portfolio management ensures a fixed income.
(4) Reducing risk: Portfolio reduces the risk of an investment.
(5) Investment mixed: Here investment into different assets ensured more safety.
(6) Wealth maximization: In order to maximize wealth portfolio is taken.
(7) Liquidity: The portfolio should ensure that there are enough funds available at short notice to take care of the investor's liquidity requirements.
(8) Safety of the investment: The first important objective of a portfolio, no matter who owns it, is to ensure that the investment is absolutely safe.

PORTFOLIO OBJECTIVES:

Several prerequisites must be completed before selecting the suitable objectives.
• An assessment of the present situation is required, such as the portfolio beneficiary's current needs; significant adjustments in the portfolio's composition (especially the level of income generated) may not be possible.

- The investment horizon, which is important if the portfolio is part of a pension fund's assets (the investment horizon is very long term), the market's ups and downs, and so on, is a second worry.

The fund's owner has imposed liquidity requirements as well as ethical considerations

LITERATURE REVIEW

A literature review is a thorough summary of prior research on a particular subject. The literature review examines scholarly articles, books, and other sources that are pertinent to a specific study topic. This previous study should be enumerated, described, summarized, objectively evaluated, and clarified in the review..

❖ **Edward Qian (2012)**

Analytical results for portfolio rebalancing and the accompanying diversification returns for various types of portfolios are discussed. He looks at risk parity portfolios' diversification results. His numerical examples show that when the leverage ratio is not too high, diversification return is generally positive for leveraged risk parity portfolios. He also shows that low correlations between different assets are critical in achieving positive diversification return and reducing portfolio turnover for risk parity portfolios.

❖ **Dhanraj Sharma (2017)**

Ten growth-oriented, open-ended equity mutual fund schemes from five public and two private mutual fund firms were examined. Risk-return analysis, Coefficient of variation, Treynor's ratio, Sharp's ratio, Jensen's measure, Fama's measure, and regression analysis are all used to test the results. Monthly closing data for the study period of April 2007 to March 2012 was used. According to the risk return study, three of the ten schemes have underperformed the market, seven have lower overall risk than the market, and all have delivered higher returns than risk free rates. At a 5% level of significance, the regression analysis reveals that the benchmark market return index has a statistically significant impact on mutual fund return.

The challenge of finding an appropriate benchmark portfolio, the danger of overestimating risk due to market timing abilities, and the failure of knowledgeable investors to obtain positive risk adjusted returns due to increased risk aversion are all discussed by Mark Grinblatt and Sheridan Titman (2011). The paper contends that these issues do not have to be major obstacles to obtaining a flawless portfolio and evaluating its performance.

RESEARCH METHODOLOGY

Introduction to methodology and data collection.

This chapter explains the research techniques and how the data was provided by the researcher. The research design, sampling design, sample size, sampling technique, data collecting and analysis, data displays, and the study's limitations are all included in this section.
The practical "how" of any piece of research is referred to as research technique. It's about how a researcher designs a study in a systematic way to produce accurate and reliable results that address the study's goals and objectives.

SOURCE OF DATA:

For Portfolio Management Diversification Application We have chosen primary and secondary data, as well as a website, which is listed below:
QUESTIONNAIRE LINK -https://docs.google.com/forms/d/119Amd-qRz7mOKUlDYO3TsVYXf_Rc2Ihfslk_Ypgq_XA/edit?usp=drivesdk
www.moneycontrol.com

HYPOTHESIS STATEMENT:

A Hypothesis is a proposed explanation for an observable phenomenon. The term derives from Greek word – hypotithenaimeaning "to put under" or "to suppose".

For the present study it is proposed to have following hypothesis:

- **NULL HYPOTHESIS:**
  Most of the investors prefer return as their investment criteria rather than Risk, liquidity and safety of principal amount.

- **ALTERNATIVE HYPOTHESIS:**
  Most of the investors don't prefer return as their investment criteria rather go for either risk or liquidity or safety of principal amount.

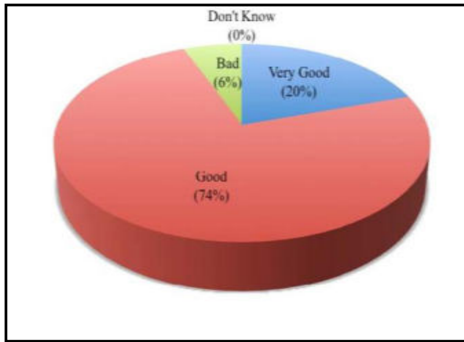
DATA ANLYSIS AND INTERPRETATION

SELECTION OF THE SAMPLE
A survey with a large number of respondents was undertaken to obtain information about the study. A random sampling technique was used to pick respondents. Samples would be picked to represent various types of investments or funds that may be included in a portfolio. Data was gathered via a questionnaire that focused on different age groups, risk perception, risk appetite, principal safety, liquidity, and so on. We chose respondents using a basic method known as "Simple Random Sampling" in order to reflect this viewpoint. Respondents were chosen at random. Only 50 people were chosen for the study due to a lack of time and resources

Q 1. How do you look into Indian economy? TABLE 1:

Very Good	10	20%
Good	37	74%
Bad	3	6%
Don't Know	0	0%

Chart-1



:

INTERPRETATION:

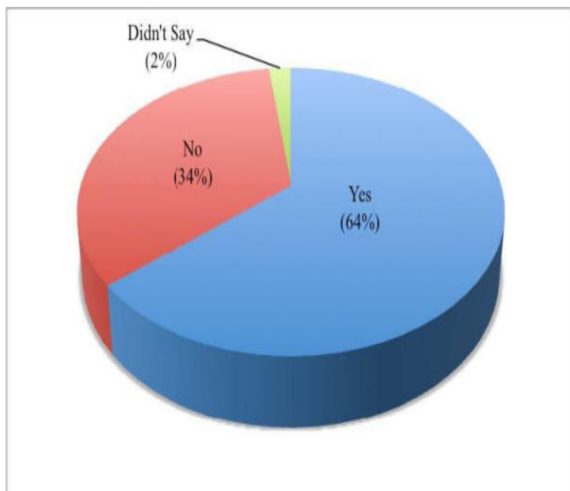
- 74% of the respondents have said Indian economy is good. This means that after the economic meltdown the Indian economy has been fairing well.
- 20% of the respondents have said Indian economy is very good. This means they feel that irrespective of the recession effects, the economy is doing well.
- 6% of the respondents feel Indian economy is bad. This means they still feel the economy has to grow for better means.
- Each and every respondent has a fair idea about Indian economy, therefore there were no respondents as such who said that they don't know about Indian economy.

2. Being an investor, you must be aware of all investment options available today?

TABLE 2:

Yes	32	64%
No	17	34%
Didn't Say	1	2%

CHART 2:



INTERPRETATION:

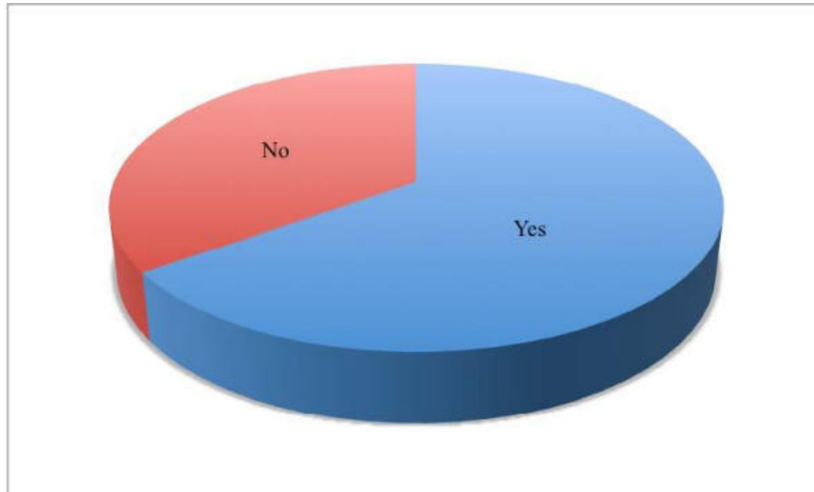
- 64% of the respondents are aware of all the investment options available. This means they have been tracking the market conditions and have a fair idea of what are the options available for investing wherein they can earn money.
- 34% of the respondents are not aware of the investment options available. This means they are least bothered to know about the options available for investing and rather try to play safe side by not taking too much of risk.
- 2% of the respondents didn't say anything because they may not have any idea of what are the investment avenues and may be they take help of third party for their investments and remain ignorant.

3. If No, do you take help of an investment advisor?

TABLE 3:

Yes	11	65%
No	6	35%

CHART 3:



INTERPRETATION:

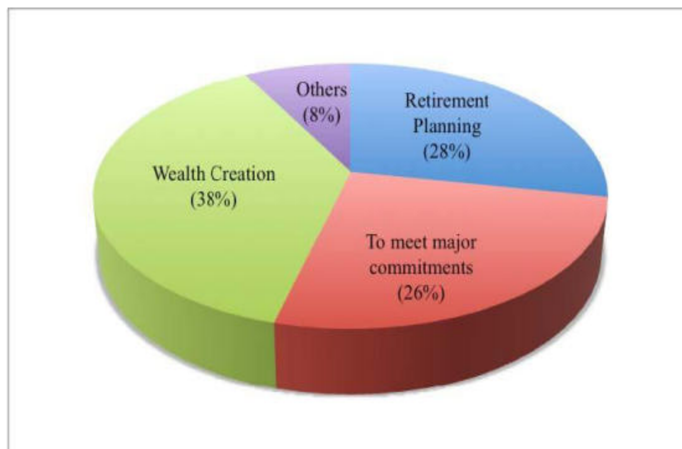
- Out of total respondents, 34% (17) said they are not aware of all the investment options available and out of this,
- 65% of 17 respondents take the help of investment advisor because they are not aware of the present market conditions and its volatility and don't want to take unnecessary risk by investing into various portfolio without understanding its consequences.
- 35% of 17 respondents don't take help of investment advisor even if they are not aware of the investment avenues. This shows the ignorance of the investors and their lack of interest towards being educated regarding various investment options.

4. Is your investment objective for?

TABLE 4:

Retirement Planning	14	28%
To meet major commitments	13	26%
Wealth Creation	19	38%
Others	4	8%

CHART 4: INTERPRETATION:



- 28% of the respondents have said their investment objective is for retirement planning. This means they are investing in order to secure their future after their retirement.
- 26% of the respondents have said their investment objective is to meet major commitments. Here major commitments means higher education for their dependents, marriage etc.
- 38% of the respondents have said their investment objective is for wealth creation. This means majority of the investors invest to create wealth. Their motto is to invest into various avenues and get maximum out of it.
- 8% of the respondents have said they have some other reasons for investment instead of creating wealth, to meet major commitments and retirement planning.

5. Which portfolio type you prefer? (Rate between 1 and 3)

TABLE 5:

RESPONDENTS	EQUITY	DEBT	BALANCED
1	1	2	3
2	1	3	2
3	3	2	1
4			1
5	1	3	2
6	1		
7	2	1	3
8	2	3	1
9	1	2	3
10	2	3	1
11	3	2	1
12	3	1	2
13			1
14	3	2	1
15	1	2	3
16	1		
17			1
18			1
19			1
20	3	2	1
21	1		
22	1	3	2
23	1	3	2
24	1	3	2
25	2	3	1
26	3	2	1
27	1	2	3
28	2	3	1
29	1	3	2
30	2	3	1
31	1		
32			1

33	3	1	2
34		1	
35	2	1	3
36	3	2	1
37		1	
38	2	3	1
39			1
40	2	1	3
41	1	3	2
42	3	1	2
43	2	1	3
44			1
45			1
46		1	
47			1
48	1		
49	1	3	2
50	3	2	1

INTERPRETATION:

- 34% of the respondents prefer equity as their portfolio type and their 1st priority. These investors put most of their money into equity rather than putting most of it in debt. They like to invest into risky assets and they are risk-takers.
- 20% of the respondents prefer debt as their portfolio type and their 1st priority. This shows that these investors put most of their money into bonds, debentures, fixed deposits etc. These investors tend to take less risk and are risk-aversers.

46% of the respondents prefer balanced as their portfolio type and their 1st priority. These investors don't want to take much risk and are risk-neutral investors. They periodical rebalance their portfolio to ensure that the stock-bond mix is in line with the long-term 'normal' mix.

DATA ANALYSIS

As per the primary data collected through questionnaire and its interpretation we found that most of the investors want their money to be safe as their first priority. Thus these investors want be get their money back first then would go for maximizing their returns. Also from the interpretations, most of the investors prefer moderate return with moderate risk thus showing that they diversify their investments into balanced funds like equities as well as bonds and other fixed income securities. By this their investments remains safe and get moderate returns.

CONCLUSIONS & RECOMMENDATIONS

From the above study we can conclude that,

- Most of them feel that Indian economy is doing good inspite of the economic hit recession.
- 64% of the respondents are aware of the investment options available today. This shows that remaining number of respondents are not aware and not well educated about the investment options.
- Out of 36% (18) who are not aware of investment options, 65% of them take help of investment advisor. This shows most of them are concern of their investment but remaining 35% out of 18 are ignorant of their investments and are least bothered to get educated.
- Most of the respondents (38%) investment objective is to create wealth. This shows most of them invest only for wealth creation by investing in for a longer period.
- 32% of the respondents prefer safety of principal as 1st priority as their investment criteria. This shows that the money invested by them has to be safe and their 1st motto is to get back the money invested then would go for maximizing their returns.
- 74% of the respondents review their portfolio. This shows that most of the investors are concern about their investments and like to keep track of the market conditions and its volatility.
- Most of the respondents review their portfolio quarterly but still there are 22% of these investors who don't know to review their portfolio and are least bothered.
- Most of the respondents (46%) prefer balanced type of portfolio. These investors rather play safe by not taking too much of risk but at the same time they prefer to Risk-neutral. They like to diversify their investments into stock, bonds, fixed deposits etc.
- We expect that following these ***recommendations*** could result in higher abnormal return for the investors:
- The investors should have a clear understanding of their investment objectives, tax status and risk tolerances. Only by this the portfolio managers can offer suitable advice or construct appropriate portfolios.
- Investment must be with reputed organization. Before investment we should be aware of the standards of the company where we want to invest. Standards of the company means, balance sheet, size, management capability etc. of the company must be excellent.
- The investment should be carefully done for the previous performance, present market status and future risk properly assessed for better results.
- Equity should be invested in such a manner that assured return must be guaranteed by regularly watching the market volatility to avoid higher risk.
- Where compatible with investor's objectives we recommend investing in equities on a long-term basis. The reason is that equities tend to offer better returns than alternative investment classes over periods of ten years or more. Although equity prices may be volatile on a day-to-day basis the effects of this are reduced over time if prices are on a rising trend. The effects of volatility are also reduced by holding a portfolio of equities with an appropriate spread of exposures to different sectors and/or countries.
- Not all clients can accept the risk of being fully invested in equities and others may require higher levels of income than can be prudently achieved from a pure equity portfolio. In these cases we will recommend investors setting aside a part of the portfolio for investment in fixed income stocks (bonds).