CHANDIGARH GROUP OF COLLEGES
Campus : Jhanjeri, Mohali

International journal Of Business Management
ISSN NO. 2349-3402
Available at www.ijbm.co.in
VOL. 3 Issue 1, 2017

PORTFOLIO MANAGEMENT

("IT IS NOT WISE TO PUT ALL EGGES IN ONE BASKET")

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ABSTRACT:

Investing in securities i.e.: shares, debentures, bonds are profitable as well as risky. For this it needs a scientific knowledge as well as analytical skills to deal with risk in these investments an investor has to take decision on the basis of both rationale and emotional perspectives. As per investors point of view investing in financial securities is one of the avenue for investing our savings but on the other side it is acknowledged to be one of the most risky avenue of investment. It is difficult to find investors investing their entire savings in a single security. Instead, they want to invest in a group of securities. Such group of securities is called portfolio. When portfolio is created risk is reduced without sacrificing returns. Portfolio management deals with the theory and practice of optimum combining securities into portfolio. An investor who understands the principles and analytical aspects of portfolio management has a better chance of success.

KEYWORD: Investor's Income, Investment Objective, Time period of goal, Risk and return.

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INTRODUCTION

An investor considering investments in securities is faced with the problem of choosing 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 realized from the portfolio has to be measured and the performance of the portfolio has to be evaluated. It is evident that creation of an investment portfolio always needs a rational investment activity. Portfolio management comprises all the processes involved in the creation and maintenance of a investment portfolio. It deals basically with the security analysis, portfolio analysis, portfolio selection, portfolio

International journal Of Business Management
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revision and portfolio evaluation. Portfolio management makes use of analytical techniques of analysis and conceptual theories regarding rationale allocation of funds. Portfolio management is a complex process which tries to make investment activity more rewarding and less risky.

RESEARCH METHODOLOGY:-

Literature Survey:
I have used newspapers, magazines related to business & finance & apart from websites.

Type of research: The research is qualitative & descriptive in nature. Qualitative research is that talk about the quality of the subject to be researched and Descriptive research is one that describes things as exists in present.

Data collection Design:

Sources of data =

- Primary Sources –I have used questionnaire as primary source for collecting data for my study.
- Secondary sources –I had collected my secondary data from websites & journals.

OBJECTIVES

- Identify Investor demographics in different stages of life cycle.
- Determine investment options prefer by investor.
- Understand investment motivations of investors

The concept of the life cycle (LC) as a means of depicting what was once a rather steady and predictable series of stages through which most families progressed. However, with the advent of many diverse family and lifestyle arrangements, what was the rule has been on the decline. This decline in the percentage of families that progress through a traditional FLC seems to be caused by a host of societal factors, including a increasing divorce rate, the explosive number of out of wedlock births, and the 35 year decline in the number of extended families that transpired as many young families moved to advance their job and career opportunities.

FLC analysis enables marketers to segment families in terms of a series of stages spanning the life course of a family unit. The FLC is a composite variable created by systematically combining such commonly used demographic variables as marital status, size of family, age of family members and employment status of the head of household. The ages of the parents and

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the relative amount of disposable income usually are inferred from the stage in the family life cycle

FLC concept is divided into two sections. The first section considers the traditional FLC schema. This model is increasingly being challenged because it fails to account for various important family living arrangements. To rectify these limitations, the second section focuses on alternative FLC stages, including increasingly important non-traditional family structures.

Traditional Family Lifecycle

The traditional family life cycle is a progression of stages through which many families pass, starting with bachelorhood, moving on to marriage, then to family growth, to family contraction, and ending with the dissolution of the basic unit. The traditional FLC models proposed over the years can be synthesized into just five basic stages, as follows.

Stage I: Bachelorhood – young singles adult living apart from parents

Stage II: Honeymooners – young married couple

Stage III: Parenthood – married couple with at least one child living at home

Stage IV: Post parenthood- an older married couple with no children living at home

Stage V: Dissolution – one surviving spouse

Stage I: bachelorhood

The first FLC stage consists of young single men and women who have established households apart from their parents. Although most members of this FLC stage are employed, many are college or graduate students who have left their parents' home. Young single adults are apt to spend their incomes on rent, basic home furnishings, the purchase and maintenance of automobiles etc. They have sufficient disposable income. Marketers target singles for a wide variety of products and services. In cities there are travel agents, housing development, health clubs sport clubs, and other service and product marketers that find this FLC stage lucrative target niche.

Stage II: honeymooners

The honeymoon stage starts immediately after the marriage vows are taken and generally continues until the arrival of the couple's first child. This FLC stage serves as a period of adjustment to married life. Because many young husbands and wives both work , these couples have available a combined income that often permits a lifestyle that provides them with the opportunities of more indulgent purchasing of possessions or allows them to save or invest their extra income. Honeymooners have considerable start-up expenses in establishing a new home.

Stage III: parenthood

When a couple has it first child, the honeymoon is considered over. The parenthood stage usually extends over more than a 20 year period. Because of its long duration, this stage can be divided into shorter phases the preschool phase, the elementary school phase, the high school phase and the college phase. Throughout these parenthood phases, the interrelationships of family members and the structure of the family gradually change. Furthermore, the financial resource of the family change significantly, as one parents progress in a career and as child rearing and educational responsibilities gradually increase and finally decreases as children become self-supporting.

Stage IV: post parenthood

Because parenthood extends over many years it is only natural to find that post parenthood when all the children have left home, is traumatic for some parents and liberating for others. This so called empty nest stage signifies for many parents almost a rebirth, a time for doing all the things they could not do while the children were at home and they had to worry about soaring educational expenses.

It is during this stage that married couples tend to be most comfortable financially. Today's empty nester has more leisure time. They travel more frequently, take extended vacations, and are likely to purchase a second home in a warmer climate. They have higher disposable incomes because of savings and investments and they have fewer expenses.

Stage V: dissolution

Dissolution of the family unit occurs with the death of one spouse. When the surviving spouse is in good health, is working or has adequate savings, and has supportive family and friends, the adjustment is easier. The surviving spouse often tends to follow a more economical lifestyle. Many surviving spouses seek each other out for companionship; others enter into second marriages.

 Long Term Goals

– Investing for higher education of children where the money required after 10-15 years.

– Investing for marriage of their children where the money required after 15-20Years.

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– Planning for retirement and to meet expenses for 25-30 years after retirement.

 Short / Mid Term Goals

– Purchasing a flat after 5 years with accumulated funds worth 10Lacs and Balance with a loan.

– Saving to buy a car costing around 4lac after 3 years.

– Protecting the family through adequate insurance (Life/Health).

– Savings to have a Family Holiday.

– Managing Debt and Cash flows -

– Having arrangement of annual exp i.e. LIC premium, other annual premiums, Child annual school fee, buying assets for house.

For Short/Mid term goals investor invests in fixed income products

While investing in Fixed Income Products we look for....

 Perceived Safety

 Need for Liquidity

 Return of Capital

Let's look at some general goals of a person

Assuming: Current Age

Self: *30 yrs* *Child: 3 yrs*

Child Education : 18 yrs

Higher Education	:	Current Cost	Future Cost
Engineer	:	Rs. 10 Lacks	Rs.28 Lacks
Medical	:	Rs. 15 Lacks	Rs.41 Lacks
Foreign Study	:	Rs. 25 Lacks	Rs.69 Lacks

Child Marriage : 24 yrs

Current Cost Future Cost

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Marriage	:	Rs. 10 Lacks	Rs.41 Lacks
Retirement:	60 yrs (Self)		
		Current Cost	Future Cost
Monthly House Hold Expense:		Rs. 15,000	Rs 1, 14,184
Retirement Kitty	:	Rs.3.54 Chores	

Assuming inflation @ 6% Life Expectancy-90 yrs

Are we on Track to Achieve the Critical Life Goals in our Lives?

If a person can save Rs.4,000/- per month How much will be his wealth when he needs money for his child's higher education?

Assuming:

Current Age: 3 yrs.

Higher Education Age: 18 yrs.

Invests in an Asset class which give returns of 8%

At the time of his child's higher education his wealth would be Rs.13.5 Lacks

Amount Required: Rs. 28 Lacks. Amount he have: 13.5 Lacks, Shortfall: 14.5 Lacks

ACCORDING TO HIS OBJETIVE, TIME PERIOD OF GOAL AND BASIS ON THE RISK AND RETUEN HE SHOUD INVEST IN THE DIFFERENT DIFFERENT SECURTIES.

Modern Approach:

The traditional approaches a comprehensive financial plan for the individual (Focus on the needs such as housing, life insurance). But these types of finance planning approaches are not done in the Markowitz approach. This approach gives more attention to the process of selecting a portfolio. Planning can be applied more in the selection of common stock Portfolio than the bond portfolio. Stocks are selected on the basis of risk and return analysis not on the basis of need of income or appreciation. Return includes the market return and dividend. In modern approach the last step is allocation of assets process that is to choose the portfolio that meets the requirement of the investor. The risk taker has to choose the level of risk. High risk taker chooses high level of portfolio lower level risk portfolio is chooses by a lower tolerance risk taker. The risk neutral investor would choose the medium level risk portfolio.

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ROLE OF PORTFOLIO MANGEMENT

There was a time when portfolio management was an exotic term. A practice which is beyondthe 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 there 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.
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.
¬Safe guarding capital.
¬Capital Appreciation.
¬Choosing optimal mix of securities.
¬Keeping track on performance

FINDINGS: -

In my research I have founded following things by questionnaire.

- 20% are from bachelor hood, 9.2% are honeymooners, 19.2% are parenthood,35.8% are post-parenthood, 15.8% are dissolution.
  - 61.2% investors said that they are satisfied with their doing investment in Fixed deposits, 18.4% investors said they do invest their money in share market. 6% in Real estate, 4% in insurance,4% in bonds,1% in gold, 4% in commodity only 2% investor invest his money in mutual funds.
  - 98% investors are even not aware of market risk products. So Most of them don't know even where the money pooled in market securities is being invested .they are not fully aware of the brokerage structure of MS advisory business, earning potential of the industry, past performance of the industry, various products available in market.

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Conclusion: -

On the basis of this study I have concluded that how to make optimum utilization of securities as asset class in different stages of family life cycle

1. Bachelorhood Stage:- at this stage of life one should invest in midterm securities plus go for aggressive equity risk
2. Honeymooners :- at this stage of life one should invest in long term securities go for equity balanced fund
3. Parenthood:- at this stage of life one should invest in by going in equity balanced fund classify asset class and same time do risk capitalize
4. Post-parenthood:- at this stage of life one should go for MONTHLY INCOME PLANS and diversified by at least 20% in debt schemes
5. Dissolution: - Purely Debt Not to take risk I personally suggest go for govt. securities where can easily get 9% return.

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 Traditional approach takes the entire financial plan of the individual investor. In the Modern Approach Markowitz Model is used. More importance is given in this concept to Risk and Return Analysis.

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