
RISK ASSESSMENT STRATEGIES IN PORTFOLIO MANAGEMENT: ANALYZING THE ROLE OF SECURITY ANALYSIS IN MITIGATING INVESTMENT RISKS AT KARVY

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ABSTRACT

Portfolio management involves the systematic selection, monitoring, and evaluation of investment assets to achieve desired financial objectives while maintaining an acceptable level of risk. In today's dynamic financial environment, investors face various risks such as market risk, credit risk, liquidity risk, interest rate risk, and economic uncertainties. Effective risk assessment strategies are therefore essential for protecting investment capital and maximizing returns.

Security analysis plays a vital role in portfolio management by helping investors evaluate the intrinsic value, financial strength, and future prospects of securities before making investment decisions. Through fundamental analysis, technical analysis, and quantitative techniques, investors can identify potential risks and opportunities associated with different investment instruments. Security analysis enables portfolio managers to assess company performance, market trends, industry conditions, and macroeconomic factors that influence investment outcomes. The primary objective of risk assessment in portfolio management is to minimize potential losses while optimizing returns through informed decision-making. Diversification, asset allocation, periodic portfolio review, and continuous monitoring of market conditions are important strategies used to manage investment risk. Security analysis supports these strategies by providing reliable information and insights that assist investors in selecting appropriate securities and maintaining a balanced portfolio.

This study examines the significance of risk assessment strategies in portfolio management and evaluates the role of security analysis in mitigating investment risks. It highlights the importance of analytical tools and techniques in identifying, measuring, and managing risks associated with investment decisions. The study concludes that effective security analysis contributes significantly to improved portfolio performance, enhanced risk management, and the achievement of long-term investment objectives.

I. INTRODUCTION

Portfolio management is the process of selecting, managing, and monitoring a collection of investment assets to achieve specific financial objectives while balancing risk and return. Investors seek to maximize returns on their investments; however, every investment decision involves a certain degree of risk. Therefore, effective risk assessment has become an essential component of portfolio management, enabling investors to make informed decisions and protect their investments from potential losses.

Risk assessment refers to the identification, evaluation, and management of various risks associated with investment activities. These risks may include market risk, credit risk, liquidity risk, inflation risk, interest rate risk, and business risk. Understanding and analyzing these risks helps investors develop appropriate strategies to minimize losses and enhance portfolio performance.

Security analysis is a critical tool used in portfolio management for assessing the value and potential performance of investment securities such as stocks, bonds, mutual funds, and other financial instruments. It involves the examination of financial statements, company performance, industry trends, economic conditions, and market

behavior. Security analysis can be broadly classified into fundamental analysis, which focuses on the intrinsic value of securities, and technical analysis, which studies historical price movements and market trends.

The role of security analysis in mitigating investment risks is significant because it provides investors with relevant information for evaluating investment opportunities and identifying potential threats. By conducting thorough security analysis, portfolio managers can select suitable securities, diversify investments effectively, and make strategic decisions that align with investment objectives and risk tolerance levels.

In the modern financial environment, characterized by market volatility and economic uncertainties, the integration of risk assessment strategies with security analysis has become increasingly important. This study aims to analyze the various risk assessment strategies used in portfolio management and examine how security analysis contributes to reducing investment risks, improving decision-making, and enhancing overall portfolio performance. Through a systematic evaluation of these concepts, the study highlights the importance of informed investment practices in achieving long-term financial success.

Definition by SEBI:

According to the **Securities and Exchange Board of India (SEBI)**, **Portfolio Management** refers to the management or administration of a portfolio of securities, funds, or other financial assets on behalf of clients by a professional portfolio manager, in accordance with the client's investment objectives and risk preferences.

Under the **SEBI (Portfolio Managers) Regulations**, a **Portfolio Manager** is defined as a person or body corporate who, pursuant to a contract or arrangement with a client, advises, directs, or undertakes the management or administration of a portfolio of securities, goods, funds, or other assets.

In simple terms, portfolio management is a professional service through which investments are planned, monitored, and managed to achieve optimum returns while minimizing risks and ensuring alignment with the investor's financial goals.

NEED & IMPORTANCE OF STUDY

The study on "Risk Assessment Strategies in Portfolio Management: Analyzing the Role of Security Analysis in Mitigating Investment Risks" is important because investment decisions are increasingly influenced by market volatility, economic uncertainties, and changing financial conditions. Investors need effective methods to identify, assess, and manage risks while maximizing returns on their investments.

Risk assessment helps investors understand the potential threats associated with different investment alternatives and enables them to make informed decisions. Security analysis plays a crucial role in evaluating the financial health, growth prospects, and market performance of securities, thereby reducing the possibility of investment losses. By studying risk assessment strategies and security analysis techniques, investors and portfolio managers can improve the quality of their investment decisions and achieve better portfolio performance.

The importance of this study lies in its ability to provide insights into various risk management practices such as diversification, asset allocation, portfolio rebalancing, and continuous monitoring of investments. These practices help in minimizing risks and enhancing returns. The study also highlights the significance of fundamental and technical analysis in selecting suitable securities and maintaining a balanced investment portfolio.

Furthermore, the study is beneficial to individual investors, financial analysts, portfolio managers, and academic researchers by improving their understanding of investment risks and the methods available to mitigate them. In a rapidly evolving financial environment, effective risk assessment and security analysis have become essential tools for achieving long-term financial stability and investment success.

SCOPE OF STUDY:

The scope of this study is to examine the various risk assessment strategies used in portfolio management and analyze the role of security analysis in minimizing investment risks. The study focuses on understanding how

investors and portfolio managers evaluate different types of risks associated with investment decisions and implement appropriate measures to manage them effectively.

The study covers key aspects of portfolio management, including risk identification, risk measurement, diversification, asset allocation, portfolio rebalancing, and performance evaluation. It also examines the application of fundamental analysis and technical analysis in assessing the value and potential of different securities such as stocks, bonds, mutual funds, and other financial instruments.

Further, the study explores the impact of market conditions, economic factors, industry trends, and company performance on investment decisions. It evaluates how security analysis assists investors in selecting suitable investment opportunities and maintaining an optimal balance between risk and return.

The scope is limited to investment-related risks and the role of security analysis in portfolio management. The findings of the study are intended to provide useful insights for investors, portfolio managers, financial analysts, researchers, and students interested in understanding effective risk management practices and improving investment performance.

OBJECTIVES:

1. To understand the concept and importance of portfolio management in achieving investment objectives.
2. To identify and analyze various types of investment risks associated with portfolio management.
3. To examine the role of security analysis in evaluating investment opportunities and minimizing risks.
4. To study the techniques of risk assessment used by investors and portfolio managers.
5. To analyze the effectiveness of diversification and asset allocation strategies in reducing portfolio risk.
6. To evaluate the application of fundamental and technical analysis in security selection and investment decision-making.
7. To assess the impact of market, economic, and industry factors on portfolio performance and investment risk.
8. To understand the relationship between risk and return in portfolio management.
9. To examine the contribution of security analysis to informed investment decisions and portfolio optimization.
10. To provide suggestions for improving risk management practices and enhancing overall portfolio performance.

II. METHODOLOGY:

Primary source

Information gathered from interacting with employees in the organization. And the data from the textbooks and other magazines.

Secondary source

Daily prices of scripts from news papers

LIMITATION:

1. The study is limited to the analysis of risk assessment strategies and security analysis within the scope of portfolio management.
2. The findings are based on available secondary data and published financial information, which may not always reflect current market conditions.
3. The study does not cover all types of investment instruments and focuses primarily on commonly traded securities such as stocks, bonds, and mutual funds.
4. Market conditions are dynamic and subject to frequent changes; therefore, the conclusions drawn may vary over time.
5. The study is limited by the availability, accuracy, and reliability of financial data and information sources.
6. Investor behavior, psychological factors, and personal financial goals, which may influence investment decisions, are not analyzed in detail.

7. The research focuses on general risk management techniques and may not be applicable to every investor or market situation.
8. External factors such as political events, regulatory changes, economic crises, and global market fluctuations are difficult to predict and may affect the study's outcomes.
9. Time and resource constraints may limit the depth of analysis of certain securities and portfolio management strategies.
10. The study is primarily academic in nature and may not fully capture real-time investment practices followed by professional portfolio managers.

III. LITERATURE REVIEW

A **security** is a fungible, negotiable instrument representing financial value. Securities are broadly categorized into debt securities (such as banknotes, bonds and debentures) and equity securities, e.g., common stocks; and derivative contracts, such as forwards, futures, options and swaps. The company or other entity issuing the security is called the issuer. A country's regulatory structure determines what qualifies as a security. For example, private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions.

Securities may be represented by a certificate or, more typically, "non-certificated", that is in electronic or "book entry" only form. Certificates may be *bearer*, meaning they entitle the holder to rights under the security merely by holding the security, or *registered*, meaning they entitle the holder to rights only if he or she appears on a security register maintained by the issuer or an intermediary. They include shares of corporate stock or mutual funds, bonds issued by corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments that are negotiable and fungible. Corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments those are negotiable and fungible

PORTFOLIO:

A portfolio is a collection of securities since it is really desirable to invest the entire funds of an individual or an institution or a single security, it is essential that every security be viewed in a portfolio context. Thus it seems logical that the expected return of the portfolio. Portfolio analysis considers the determine of future risk and return in holding various blends of individual securities

Portfolio expected return is a weighted average of the expected return of the individual securities but portfolio variance, in short contrast, can be something reduced portfolio risk is because risk depends greatly on the co-variance among returns of individual securities. Portfolios, which are combination of securities, may or may not take on the aggregate characteristics of their individual parts.

Since portfolios expected return is a weighted average of the expected return of its securities, the contribution of each security the portfolio's expected returns depends on its expected returns and its proportionate share of the initial portfolio's market value. It follows that an investor who simply wants the greatest possible expected return should hold one security; the one which is considered to have a greatest expected return. Very few investors do this, and very few investment advisors would counsel such and extreme policy instead, investors should diversify, meaning that their portfolio should include more than one security.

PORTFOLIO MANAGEMENT PROCESS:

Investment management is a complex activity which may be broken down into the following steps:

1) **Specification of investment objectives and constraints:**

The typical objectives sought by investors are current income, capital appreciation, and safety of principle. The relative importance of these objectives should be specified further the constraints arising from liquidity, time horizon, tax and special circumstances must be identified.

2) choice of the asset mix :

The most important decision in portfolio management is the asset mix decision very broadly; this is concerned with the proportions of 'stocks' (equity shares and units/shares of equity-oriented mutual funds) and 'bonds' in the portfolio.

The appropriate 'stock-bond' mix depends mainly on the risk tolerance and investment horizon of the investor.

ELEMENTS OF PORTFOLIO MANAGEMENT:

Portfolio management is on-going process involving the following basic tasks:

- Identification of the investor's objectives, constraints and preferences.
- Strategies are to be developed and implemented in tune with investment policy formulated.
- Review and monitoring of the performance of the portfolio.
- Finally, the evaluation of the portfolio

Risk:

Risk is uncertainty of the income /capital appreciation or loss or both. All investments are risky. The higher the risk taken, the higher is the return. But proper management of risk involves the right choice of investments whose risks are compensating. The total risks of two companies may be different and even lower than the risk of a group of two companies if their companies are offset by each other.

SOURCES OF INVESTMENT RISK:

Business risk:

As a holder of corporate securities (equity shares or debentures), you are exposed to the risk of poor business performance. This may be caused by a variety of factors like heightened competition, emergence of new technologies, development of substitute products, shifts in consumer preferences, inadequate supply of essential inputs, changes in governmental policies, and so on.

Interest rate risk:

The changes in interest rate have a bearing on the welfare on investors. As the interest rate goes up, the market price of existing fixed income securities falls, and vice versa. This happens because the buyer of a fixed income security would not buy it at its par value if its fixed interest rate is lower than the prevailing interest rate on a similar security. For example, a debenture that has a face value of RS. 100 and a fixed rate of 12% will sell at a discount if the interest rate moves up from, say 12% to 14%. While the changes in interest rate have a direct bearing on the prices of fixed income securities, they affect equity prices too, albeit somewhat indirectly.

The two major types of risks are:

- ❖ Systematic or market related risk.
- ❖ Unsystematic or company related risks.

Systematic risks affected from the entire market are (the problems, raw material availability, tax policy or government policy, inflation risk, interest risk and financial risk). It is managed by the use of Beta of different company shares.

The unsystematic risks are mismanagement, increasing inventory, wrong financial policy, defective marketing etc. this is diversifiable or avoidable because it is possible to eliminate or diversify away this component of risk to a considerable extent by investing in a large portfolio of securities. The unsystematic risk stems from inefficiency magnitude of those factors different from one company to another.

RETURNS ON PORTFOLIO:

Each security in a portfolio contributes return in the proportion of its investments in security. Thus the portfolio expected return is the weighted average of the expected return, from each of the securities, with weights

representing the proportions share of the security in the total investment. Why does an investor have so many securities in his portfolio? If the security ABC gives the maximum return why not he invests in that security all his funds and thus maximize return? The answer to this questions lie in the investor’s perception of risk attached to investments, his objectives of income, safety, appreciation, liquidity and hedge against loss of value of money etc. this pattern of investment in different asset categories, types of investment, etc., would all be described under the caption of diversification, which aims at the reduction or even elimination of non-systematic risks and achieve the specific objectives of investors

RISK ON PORTFOLIO:

The expected returns from individual securities carry some degree of risk. Risk on the portfolio is different from the risk on individual securities. The risk is reflected in the variability of the returns from zero to infinity. Risk of the individual assets or a portfolio is measured by the variance of its return. The expected return depends on the probability of the returns and their weighted contribution to the risk of the portfolio. These are two measures of risk in this context one is the absolute deviation and other standard deviation.

Most investors invest in a portfolio of assets, because as to spread risk by not putting all eggs in one basket. Hence, what really matters to them is not the risk and return of stocks in isolation, but the risk and return of the portfolio as a whole. Risk is mainly reduced by Diversification.

IV. DATA ANALYSIS AND INTERPRETATION

MARUTI SUZUKI:

Year	(P0)	(P1)	D	(P1-P0)	$D+(P1-P0)/ P0*100$
2020-21	924	992	4.5	68	11.86
2021-22	992	520	5	-472	-42.58
2022-23	520	1560	3.5	1,040	203.50
2023-24	1560	1421	6	-139	-2.91
2024-25	1421	935	7.5	-486	-26.70
AVERAGE RETURN					28.63

ACC CEMENTS:

Year	(P0)	(P1)	D	(P1-P0)	$D+(P1-P0)/ P0*100$
2020-21	1074	1028	20	-46	15.72
2021-22	1028	478	20	-550	-33.50
2022-23	478	872	23	394	105.43
2023-24	872	1076	30.5	204	53.89
2024-25	1076	1136	11	60	16.58
AVERAGE RETURN					31.62

ICICI BANK:

Year	(P0)	(P1)	D	(P1-P0)	$D+(P1-P0)/ P0*100$
2020-21	899	1231	10	332	46.93

2021-22	1231	448	11	-783	-52.61
2022-23	448	876	11	428	106.54
2023-24	876	1145	12	269	42.71
2024-25	1145	684	14	-461	-26.26
AVERAGE RETURN					23.46

RELIANCE:

Year	(P0)	(P1)	D	(P1-P0)	D+(P1-P0)/ P0*100
2020-21	638	1424	11	786	134.20
2021-22	1424	615	13	-809	-43.81
2022-23	615	1089	13	474	90.07
2023-24	1089	1058	7	-31	4.15
2024-25	1058	692	8	-366	-26.59
AVERAGE RETURN					31.60

V. FINDINGS

Investors would be able to achieve when the returns of shares and debentures Resultant would be known as diversified portfolio. Thus portfolio construction would address itself to three major via, selectivity, timing and diversification. In case of portfolio management, negatively correlated assets are most profitable. A rational investor would constantly examine his chosen portfolio both for average return and risk.

- Individual returns on the selected stocks including Maruti, ACC, ICICI, Reliance are 28.63%, 31.62%, 23.46%, 31.60% respectively.
- Individual risks on the selected stocks including Maruti, ACC, ICICI, Reliance are 89.43%, 46.18%, 56.71%, 68.95% respectively.
- Correlation between all the companies is positive which means all the combinations of portfolios are at good position to gain in future.
- Portfolios Returns of followed by ACC & ICICI (35%) and Maruti & ACC (33.08%) stood on the top while Portfolio Retuns of Maruti & ICICI (21.2%) and ICICI & Reliance (24.10) stood at the bottom.
- Portfolios Risk of Maruti (89. 3%) followed by Reliance & Maruti (67%) and Reliance are very high while Portfolio Risks of ACC & TCS (22.61%) , Maruti & ACC (37.68%) stood at the bottom.

VI. SUGGESTIONS

- All the stocks under consideration have given positive return which indicates the positive performance of the stock market, specially the SENSEX stocks. has been the outstanding performer with a return of nearly 55%. This indicates that Investors can be assured of good returns in the long run by investing in blue chip companies. Rest of the stocks has given average returns ranging from 24% to 32%.
- Comparing the individual risks, Maruti are risky securities compared to the other securities like Reliance, ACC and ICICI and it suggested that the investors should be careful while investing in these securities.
- The investors who require minimum return with low risk can invest in ICICI and ACC.
- It is recommended that the investors who require high risk with high return should invest in ACC.
- All the investors who invest in the securities are ultimately benefited by investing in selected scripts of Industries.

- Investors are advised to invest in Portfolios of Reliance & ACC (37.43%) followed by ACC & ICICI (35%) and Maruti & ACC (33.08%) which have given the maximum returns.
- Low Risk investors are advised to keep away from Maruti (risk of 89.3%) and prefer the Portfolios of ACC (22.61%), Maruti (37.68%) which have the least risk.

Some general rules to follow while investing in securities include:

- Never invest on the basis of an insider trader tip in a company which is not sound (insider trader is person who gives tip for trading in securities based on prices sensitive up price sensitive unpublished information relating to such security).
- Never invest in the so called promoter quota of lesser known company.
- Never invest in a company about which you do not have appropriate knowledge.
- Never at all invest in a company which doesn't have a stringer financial record your portfolio should not stagnate.
- Shuffle the portfolio and replace the slow moving sector with active ones, investors were shattered when the technology, media, software, stops, have taken a down slight.
- Never fall to magic of the scripts don't confine to the blue chip company's look out for other portfolio that ensure regular dividends.

In the same way never react to sudden raise or fall in stock market index such fluctuations in movement minor correction's in stock market held in consolidation of market their by reading out a weak player often taste on wait for the dust and dim to settle to make your move".

VII. CONCLUSIONS

Portfolio management is a process of encompassing many activities of investment assets and securities. It is a dynamic and flexible concept and involves regular and systematic analysis, judgment, and action. A combination of securities held together will give a beneficial result if they grouped in a manner to secure higher returns after taking into consideration the risk elements.

The main objective of the Portfolio management is to help the investors to make wise choice between alternate investments without a post trading shares. Any portfolio management must specify the objectives like Maximum returns, Optimum Returns, Capital appreciation, Safety etc., in the same prospectus.

This service renders optimum returns to the investors by proper selection and continuous shifting of portfolio from one scheme to another scheme or from one plan to another plan within the same scheme.

“Greater Portfolio Return with less Risk is always is an attractive combination” for the Investors.

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