ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 11| Issue: 3| March 2025|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2025: 8.691 || ISI Value: 1.188

# PORTFOLIO MANAGEMENT IN FINANCIAL MARKETS: THE ART OF ASSET ALLOCATION

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## ABSTRACT
*One of the most important parts of financial planning is managing one's portfolio so that investment assets can perform at their best with the least amount of risk. Asset allocation, diversification, risk tolerance evaluation, and periodic portfolio rebalancing are some of the important concepts and tactics used in this study. This study explains how the Efficient Market Hypothesis (EMH), Modern Portfolio Theory (MPT), and Capital Asset Pricing Model (CAPM) might help you build a well-rounded investment portfolio. Active and passive investing techniques are compared in the study, which also examines more modern methods of managing portfolios. Passive management aims for long-term growth by monitoring market indexes, but active management requires periodic portfolio modifications to surpass market benchmarks. Key considerations impacting contemporary portfolio management decisions include the function of financial advisers and the influence of technology, especially robo-advisors.*

## INTRODUCTION
Portfolio management refers to the steps taken to choose, allocate, and oversee a collection of investments with the purpose of meeting predetermined financial goals. Investment planning comprises selecting investment strategies, allocating assets, and managing risk in order to maximize returns while minimizing risk, taking into account the investor's objectives, time horizon, and risk tolerance. One surefire way to amass riches is to maximize investment returns. The primary advantages of portfolio management are reducing risk and achieving a gain-loss balance. All sorts of financial instruments are included in this set, including stocks, mutual funds, cash, bonds, and insurance policies. To protect assets from fluctuations in the market, portfolio management is essential. So, what exactly is "portfolio management?" The word is defined here. Setting priorities, selecting appropriate investments, and planning to achieve high returns are all part of managing a portfolio. Monitoring someone's financial investments is all it entails. Any kind of asset, including cash, bonds, mutual funds, and so on, might be part of the portfolio. This process necessitates an expert level of knowledge about the stock market and the ability to oversee investments.

Analysing a Portfolio
A "portfolio analysis" takes a comprehensive look at all of a company's assets and how they're performing. The purpose of the evaluation is to provide a comprehensive analysis of risk and return. In order to adapt to changes in the market and other aspects of their lives, investors should review their portfolio often. The study also helps in allocating assets and resources to different portions of the portfolio.

Analysing a Portfolio
An examination of a portfolio can reveal its composition, performance, and risk. It helps investors and portfolio managers reach their financial goals by giving a bird's-eye view of an investment's performance. The process of distributing funds among various investment options, including cash, stocks, bonds, and property. Diversification helps reduce risk by ensuring a portfolio isn't overly reliant on any one asset type. Calculating the potential advantages while keeping the dangers in check. It is common practice to use measures like Sharpe Ratio, Beta, or Alpha to compare risk-adjusted performance to that of benchmarks or peers. Several metrics are utilized to track the efficacy of a portfolio, including return on investment (ROI), standard deviation (SD), and annualized return (AR). Over different time periods and market conditions, these reveal the performance of the investments. Understanding the portfolio's exposure to various countries and sectors is crucial for assessing its vulnerability to industry-specific or geopolitical risks. Examining the trends and correlations among the assets in a portfolio. In an effort to reduce overall risk, a diversified portfolio seeks out assets with low or negative correlation. By rebalancing their portfolio on a regular basis and adjusting the weights of the various asset classes, investors can ensure that their investments are in accordance with their risk tolerance and investing objectives.
The relative performance indicator most commonly used for benchmarked strategies, which strive to surpass a certain index, is alpha. This performance metric represents the excess return above the performance of a benchmark.

## RESEARCH GAP
Portfolio management may help investors understand and manage the risk associated with their holdings. To reduce overall risk while maintaining a desired return profile, it is wise to diversify a

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portfolio across several asset classes and sectors, such as stocks, bonds, real estate, etc. Studying portfolio management may help investors maximize earnings by teaching them to balance risk and return. By utilizing methods like Modern Portfolio Theory (MPT), one may produce an efficient frontier that illustrates the highest possible expected return given a particular level of risk. To effectively manage one's portfolio, one must first determine one's time horizon, risk tolerance, and financial goals. That way, you can be sure your investment portfolio will be both strategic and adaptable to the ever-changing market. Learning about portfolio management gives you the tools to evaluate how well an investment portfolio is doing.

## OBJECTIVES OF THE STUDY

- To study about the Portfolio Analysis
- To explore different assets in portfolio construction
- To analyse the risk and returns of the Selected Securities
- To evaluate the impact of overall portfolio performance of the selected securities
- To make the best portfolio suggestions for the Investors

## RESEARCH METHODOLOGY

Secondary data is the source information gathered for this project. There are two ways to get data for analysis, and they are
Primary Data : It is information that is gathered through surveys and first-hand observations. Primary data collection allows researchers to obtain specific information that is appropriate for their study objectives. Using it may require more time, effort, and money than accessing secondary data, despite the fact that it provides fresh and targeted information.

Research Design ; Descriptive Design
Sample Size: 2 companies in every selected sector
Analytical Tool : Risk and Return analysis of Selected Securities
Secondary Data : Collecting secondary data gives researchers access to readily available data, facilitates comparative analysis, shows historical trends, and saves time and money. When assessing the reliability, suitability, and quality of secondary data sources, researchers should use caution.

## LIMITATIONS OF THE STUDY

- Time is one of the study's main limitations
- It is only applicable to the chosen Selected Companies
- The data analyzed may or may not yield reliable results for decision-making
- The data gathered for the analysis is secondary data, which may or may not have an impact on decision-making; and the data was gathered during a time frame that may not have been appropriate for analysis.

## LITERATURE REVIEW

A Novel Recurrent neutral network based online Portfolio Analysis for high Frequency trading by Xnwei Cao, Adam Francis, (Jul 2023): A model for portfolio analysis that won the Nobel Prize in economics, the Markowitz model lays the theoretical groundwork for contemporary investment. Nevertheless, in this age of high frequency trading (HFT), the time-efficiency of portfolio analysis is still an important consideration, particularly in light of the ever-changing stock prices and the competing goals of minimizing risk while maximizing return. To tackle this difficult challenge at runtime, we build a model using recurrent neural networks in this research. There is a presentation of rigorous theoretical research on convergence and optimality in portfolio optimization. By simulating actual data from the DJIA index, numerical experiments show that the suggested solution outperforms the DJIA index with respect to investment returns and risk.

Framework proposal for eco-design integration on product portfolio management by Marco Antonio Paula Pinheiro, Daniel Jugend, (Mar 2018): There aren't many studies that combine product portfolio management (PPM) with ecodesign, despite the abundance of literature on both topics. There is scant evidence of theoretical and practical relationships between the two, suggesting that they are often conceptually distinct. At the product planning stage, this article suggests a theoretical framework that combines ecodesign principles, methodologies, and tools with portfolio management. An extensive literature research and rigorous analysis of PPM and ecodesign were carried out in order to construct this framework. Two enterprises that make items from Brazilian biodiversity put the framework that was later refined through a pilot test. In terms of outcomes, it offers a collection of procedures linked to the following aspects: Organization, Strategy, and Guides, Methods, and Tools. Proposed practices, such as adopting the Project Management Office (PMO) and utilizing social media, might be helpful in integrating ecodesign into PPM, after the presentation of the framework assessment by the firms.
Comparative Analysis and Research of Investment Portfolio Management Models by Yuxuan Wang, (Dec 2023): There is little doubt that portfolio management is an integral part of the financial and investment landscape, serving the needs of both retail and institutional investors. In order to maximize the risk-return trade-off according to the investor's preferences and restrictions, researchers employ a variety of mathematical models to make educated judgments regarding the allocation and management of assets within a portfolio. The methods of literature review and comparative analysis are the backbone of this work. The first part of the book is devoted to a compilation, summary, and analysis of various papers concerning models for portfolio management. These papers cover topics such as the origins, main assumptions, components, and applications of models like the Markowiz Mean-Variance Model, Capital Market Line (CML), Arbitrage Pricing Theory (APT), and Capital Asset Pricing Model (CAPM). By contrasting and analyzing the four primary research models and their various advantages and disadvantages, this article also makes use of comparative analysis. The article explores the links and differences in application across the models through this comparison. Therefore, these models develop and improve with time, with some even building upon earlier work. An expansion of the Markowitz Model, CAPM streamlines the risk-return relationship, incorporates systematic risk, and uses the risk-free

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rate and market portfolio as benchmarks. The Capital Market Line (CML) is a derivative of the Capital Asset Pricing Model (CAPM) that depicts the risk-return trade-off for efficient portfolios of market and risk-free assets. An expansion of CAPM may be observed in APT, a subsequent paradigm.

A Study on Performance evaluation of a Portfolio created using Sharpe Method by Rushita Panchal, Aneri Patel, Samir Thakkar, (March 2021): The research primarily aims at building a portfolio utilizing the Sharpe index methodology and certain NSE equities. The Nifty 50 index is used to calculate the portfolio of securities. From January 1, 2020, to June 30, 2020, a whole calendar year will pass. We combine the three assets into a single portfolio by applying Sharpe's cutoff. Depending on the investor's income, budget, and preferred time period, a portfolio may consist of a variety of investment tools such as stocks, bonds, cash, mutual funds, shares, and so on. The phrase "portfolio management" describes the process by which individuals learn to choose an investing strategy that maximizes return with little risk. There are a number of factors that go into managing a portfolio, including diversification, risk tolerance, investment horizon, and maturity. Finding smart investments and building a portfolio to get a greater return are both challenging tasks.

Portfolio Management by Nisha Malik, Chand Prakash Saini, (Sep 2013): There is both reward and danger in investing in assets like stocks, bonds, and debentures. For this, you'll require analytical prowess and scientific understanding of potential dangers. while it comes to these investments, investors need to consider both logical and emotional factors while making decisions. Investors see financial instruments as a way to put their money to work, but they also recognize that this is one of the riskiest ways to do so. Investors who put all their money into one investment are rare. They would rather put their money into a basket of securities. The term "portfolio" describes this set of assets. Portfolio creation allows for the reduction of risk without compromising rewards. The study and practice of constructing a portfolio of investments in the most advantageous way is known as portfolio management. A more successful investor will have a firm grasp of the analytical and guiding concepts of portfolio management.

## DATA ANALYSIS AND INTERPRETATION

Comparison of Risk & Returns of Selected Securities

| Sector | Security | Return | Risk |
|---|---|---|---|
| Pharma | Cipla | -0.32 | 1.22 |
| | Sun Pharma | -0.37 | 1.19 |
| Banking | SBI | -0.22 | 1.51 |
| | ICICI bank | 0.06 | 0.95 |
| Automobile | Hero Motocorp | -0.65 | 1.50 |
| | Bajaj | -0.47 | 2.01 |
| Indices | Nifty | -0.16 | 0.76 |

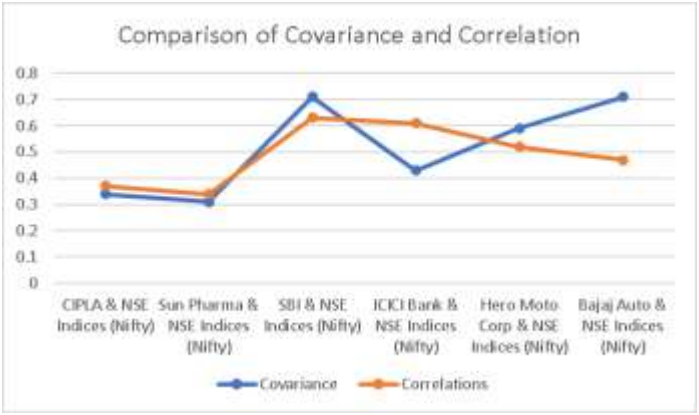



Interpretation

From the above table and graph we can state that while comparing all the sectors we find that ICICI banks shows postiive returns in banking sector and all other sector securities and SBI Bank also shows Negative Returns.

Comparison of Covariance and Correlation

| | Covariance | Correlations | Relation ship | Status |
|---|---|---|---|---|
| CIPLA & NSE Indices (Nifty) | 0.34 | 0.37 | Positive | Moderate Degree |
| Sun Pharma & NSE Indices (Nifty) | 0.31 | 0.34 | Positive | Moderate Degree |
| SBI & NSE Indices (Nifty) | 0.71 | 0.63 | Positive | Moderate Degree |
| ICICI Bank & NSE Indices (Nifty) | 0.43 | 0.61 | Positive | Moderate Degree |
| Hero Moto Corp & NSE Indices (Nifty) | 0.59 | 0.52 | Positive | Moderate Degree |
| Bajaj Auto & NSE Indices (Nifty) | 0.71 | 0.47 | Positive | Moderate Degree |




## FINDINGS.

- Avg Returns of the Cipla Company for the period of three months i.e., 15th October 2024 to 15th january 2025 is -0.32 i.e -32% and Standard Deviation is 1.22
- Avg Returns of the NSE Indicies for the period of three months i.e., 15th October 2024 to 15th january 2025 is -0.16 i.e -16% and Standard Deviation is 0.75
- Calculations of correlation between the Cipla and NSE Indices (Nifty) shows the Positive Correlation (i.e. 0.37) and the correlation is Moderate degree.

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- Avg Returns of the Sun pharma for the period of three months i.e., 15th October 2024 to 15th january 2025 is -0.37 i.e -37% and Standard Deviation is 1.19
- Calculations of correlation between the Sun Pharma and NSE Indices (Nifty) shows the Positive Correlation (i.e. 0.34) and the correlation is moderate degree.
- Avg Returns of the SBI for the period of three months i.e., 15th October 2024 to 15th january 2025 is -0.22 i.e -22% and Standard Deviation is 1.51
- Calculations of correlation between the SBI and NSE Indices (Nifty) shows the Positive Correlation (i.e. 0.63) and the correlation is moderate degree.
- Avg Returns of the ICICI Bank for the period of three months i.e., 15th October 2024 to 15th january 2025 is 0.06 i.e 6% and Standard Deviation is 0.95
- Calculations of correlation between the ICICI Bank and NSE Indices (Nifty) shows the Positive Correlation (i.e. 0.61) and the correlation is moderate degree.
- Avg Returns of the Hero Moto Corp for the period of three months i.e., 15th October 2024 to 15th january 2025 is -0.65 i.e -65% and Standard Deviation is 1.50
- Calculations of correlation between the Hero Moto Corp and NSE Indices (Nifty) shows the Positive Correlation (i.e. 0.52) and the correlation is moderate degree.
- Avg Returns of the Bajaj Auto for the period of three months i.e., 15th October 2024 to 15th january 2025 is -0.47 i.e -47% and Standard Deviation is 2.01
- Calculations of correlation between the Bajaj Auto and NSE Indices (Nifty) shows the Positive Correlation (i.e. 0.47) and the correlation is moderate degree.
- While comparing all the sectors we find that ICICI banks shows postiive returns in banking sector and all other sector securities and SBI Bank also shows Negative Returns.

**Suggestions**

- Distribute your assets evenly across all industries. For instance, you may invest 30–40% in the banking sector, 30–% in the automotive industry, and 30–% in the pharmaceutical sector, shifting your allocations as needed according to your risk tolerance and market circumstances.
- To lower total risk and take advantage of development potential in each area, it is recommended to diversify among banking, car, and pharmaceutical industries.
- If Investor wants portfolio to generate returns over the long run, you need to be rigorous about managing it. This means checking in on it often, rebalancing it, and managing your risk.
- It is crucial to keep educated and adaptable since the success of these sectors will be impacted differently by economic cycles, technological trends, regulatory changes, and global market circumstances.
- Mitigate risk by spreading investments across different sectors rather than concentrating on one area.
- Given that ICICI Bank recorded positive returns while other sectors experienced losses, consider increasing exposure to sectors with demonstrated resilience.
- Leverage the moderate positive correlations between stocks and the NSE index to gauge how individual securities might react to broader market movements.
- Periodically adjust holdings based on market performance and volatility to maintain an optimal risk/return balance.
- Combine both technical chart analysis and fundamental metrics to make informed buy/sell decisions.
- Given the contrasting performance between ICICI Bank (positive) and SBI (negative) despite both being in the banking sector, analyze underlying factors before investing.
- Monitor macroeconomic indicators and market trends, as the overall bearish trend indicated by the NSE index may persist or shift unexpectedly.
- Recognize that sectors like pharmaceuticals and automobiles showed significant losses; factor in industry-specific challenges when making investment decisions.
- Align your investment strategy with your personal risk tolerance, especially since some stocks exhibit high standard deviations.

## CONCLUSION

The analysis for the period from 15th October 2024 to 15th January 2025 shows an overall bearish market trend, Over the three-month period the performance of selected stocks reveals both challenges and opportunities in a volatile market environment. The NSE indices declined by 16%, setting the tone for overall market weakness, yet individual stocks demonstrated varied responses. Pharmaceutical companies such as Cipla and Sun Pharma experienced losses of 32% and 37%, respectively, reflecting sector-specific pressures. The automotive segment also suffered, with Hero Moto Corp declining by 65% and Bajaj Auto by 47%, underscoring high volatility and potential risk. In contrast, the banking sector showed mixed results; while SBI recorded a decline of 22%, ICICI Bank managed to secure a positive return of 6%, indicating resilience amidst market turmoil. Moderate positive correlations between these stocks and the NSE indices suggest that they generally follow broader market trends, albeit with differing levels of volatility. This analysis emphasizes the need for diversified investment strategies and careful risk management to navigate uncertain market conditions successfully. Investors are advised to conduct further analysis and adjust their portfolios judiciously for success.

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