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FINANCIAL PORTFOLIO MANAGEMENT: OVERVIEW AND DECISION MAKING IN INVESTMENT PROCESS

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ABSTRACT

In the globalization era, Portfolio Management plays a vital role to take decision in investment of various securities. The aim of the paper is to present an approach that how investment decisions are made and types of portfolio investors can form .This article proposes a framework of holistic perspective of portfolio management. This paper also reveals the various factors and process to be consider to deploy funds in a portfolio *which influence the investors to take decision for "Best Investment Strategy"*.

KEYWORDS: ***Diversification; Financial Instrument; Investment; Portfolio Management; Risk; Securities***

INTRODUCTION

Portfolio management is a continuous process. It is a dynamic strategy in which investor deploying their funds in different investment avenues .Portfolio refers to managing an investor's investments in the form of bonds, shares, cash, mutual funds etc. so that investor can earn the maximum profits within the stipulated time frame. The art of selecting the right investment portfolio for the investors in terms of minimum risk and maximum return is called as portfolio management. Portfolio aspect illuminates the quantitative analysis of how investor can diversify their portfolio with a specific end goal to minimize the risk and maximize the return in a stipulated time frame. A well-diversified portfolio mix of equities, debt securities, and money market instruments will provide the expected rate of return for any given degree of risk and also to mitigate (reduce) the risks. Portfolio Diversification is an investment tool which helps in keeping the portfolio healthy.

OBJECTIVES OF THE STUDY

Primary Objective

The primary objective of this study is to analysis and explore suitable Portfolio for various investors.

Secondary objectives

To help achieve the primary objective, the secondary objectives of the study are as follows:

- To examine the different attributes of various Portfolios.
- To analyse the "Best Investment Strategy" to the investors as per their risk appetite and expectation of return.
- To know the customized investment solutions to investors as per their needs and requirements.

RESEARCH METHODOLOGY

The present study is based on secondary data which was collected from various websites, journals, news etc. This data was used to identify various attitudes of different investors to achieve their objectives through constructing their portfolio.

An overview of Portfolio Management

Portfolio Management, analysing the strengths and weakness of various combination of different portfolios. It is a management technique to manage the investor's funds by selecting the best investment mix in the right proportion, to increase the return on investment and maximize the wealth of the investor. Here, portfolio refers to a range of financial products, i.e. stocks, bonds, mutual funds etc. in which investors can invest.

Portfolio Management consists of two word i.e. Portfolio and Management.

The meaning of this is as follows:

Portfolio: Portfolio is defined as the composite set of financial assets in which the investor wishes to invest such as shares, bonds, debt instruments like debenture, mutual funds, risk free financial assets like NSC, PPF etc.

Management: Management is a process of planning, decision making, organizing, leading, motivation and controlling. According to Van Fleet and Peterson defines management, 'as a set of activities directed at the efficient and effective utilization of resources in the pursuit of one or more goals.'

Portfolio Management: Portfolio Management is an art of guiding the investors what to do when to do and directing that how the investor can diversify their portfolio with a specific end goal to minimize the risk and maximize the return. It is a systematic and scientific way to manage the available funds to obtain the maximum return at lower risk in a stipulated time frame.

FACTORS TO CONSIDER WHEN CREATING A PORTFOLIO

Building a financial Portfolio covers a certain factors that should be consider. It involves wisely unifying the financial investments, by opting for the best investment mix in the right ratio. In portfolio management investors should analyse the risk return trade-off of the portfolio as a whole, not the risk return trade-off of the individual investments in a portfolio. As, the unsystematic risk can be diversified away by combining the investments into a portfolio. The following factors to consider when creating a Portfolio are as:

Figure: 1 Factors to consider when creating a Portfolio

1. **Capital preservation:** Capital preservation is one of the primary reasons investors invest their funds in a suitable portfolio. It is a strategy for protecting the money by deploying their funds in insured accounts or fixed income-investments like fixed deposits, government bonds, and even an ordinary savings account etc. that promise safety of principal amount. Although the return on investment may be lower here but the objective of capital preservation is easily met.
2. **Customized Allocation:** Portfolio Management depicts the customized investment plan to the investor as per their needs, wealth, income, spending plan, age and capacity to handled risk. Investors can reduce their risk and increase their return through portfolio management. Portfolio management allows investors to take more informed decisions about the kind of investments.
3. **Consistency of Returns:** Consistency in returns is an important driver of overall portfolio. Standard deviation helps to measure the consistency of returns of a portfolio over the period. A smaller standard deviation reflects greater consistency and predictability.
4. **Reducing risk:** With the help of portfolio management investors can minimizes their risk which involved in investing. Every investment instruments attach their own risk, it may be unsystematic risk or systematic risk. Even an optimum portfolio cannot eliminate market risk, but can only reduce or eliminate the diversifiable risk.
5. **Diversification of Portfolio:** Portfolio diversification is the financial strategy that aims to reduce risk by allocating investments across various financial instruments. Through diversification investors have an opportunity to diversify their risk.
6. **Capital appreciation:** Capital appreciation is primary and long-term goal. Sound portfolio offers a significant return on the initial amount that the investors invested.

7. **Liquidity:** Appropriate portfolio management should ensure that there are enough funds available at short notice to take care of the investor's liquidity requirements. . For example, investor could keep some money in liquid funds, which can sell off easily when urgently needed like medical emergency or any contingencies etc.

TYPES OF PORTFOLIO

Portfolio management is the strategic way of investment. The popular idiom "**don't put all your eggs in one basket**" reflects that if investor place all their savings in a single investment instrument he could lose everything.
Though there are several types of investment portfolios, investors make it a point to build one that matches their investment intent and risk appetite.
Based on investment strategies, these following are some common types of portfolios –

- **Aggressive Portfolio**
  Aggressive investors takes a greater risk in search of high returns. Investors who, desires high return and have a high risk tolerance for longer time horizon elect aggressive investment strategies. Generally the Aggressive Growth Portfolio investors will majorly invest in equity securities. An aggressive portfolio has a high beta.
- **Defensive Portfolio**
  A defensive investment strategy is a conservative method of portfolio. In defensive portfolio strategies investor invest a large portion of a funds to fixed-income securities like high-quality, short-maturity bonds and blue-chip stocks etc.. This type of portfolio is well suited to those investors who have a low-risk appetite. A defensive portfolio is one comprising stocks that don't have a high beta, by creating a defensive investment portfolio, an investor has a better chance of protecting his money throughout a market or economic slowdown.
- **Speculative Portfolio**
  A speculative portfolio carries the highest risk among all types of portfolio where the investor focus on purchasing. The investor buys the financial instrument in an attempt to create profit from market price fluctuation. Investors must adopt due diligence while building a speculative portfolio as it carries risk which is pretty high.
- **Hybrid Portfolio**
  A hybrid portfolio management strategies would include mix stocks and bonds in relatively fixed proportions. This approach deals diversification across multiple asset classes. This portfolio strategy is beneficial to the investors because equities and fixed income securities have a negative correlation with one another.

Key Steps for Successful Portfolio Management

Investor consists the following key steps to invest in the portfolio:

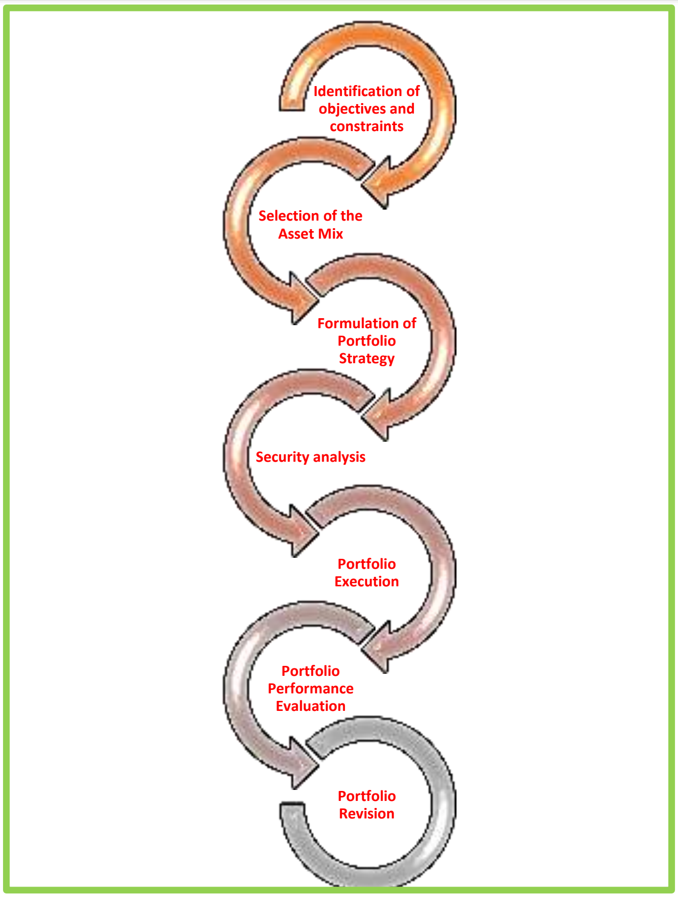

Figure: 2 Key Steps for Successful Portfolio Management

1. **Identification of objectives and constraints:** To construct a portfolio, investors should identify their set of goals and constraints. These constraints may be concern with time horizon, investment capacity, risk tolerance capacity, nature of returns etc. Whereas in setting up goals of portfolio management, investor should clearly identify the reasons to build an optimal portfolio. The relative importance of these objectives should be clearly defined.
2. **Selection of the Asset Mix:** Asset Mix is the composition of three major asset classes – equities, fixed income, and cash / cash equivalents. To design a portfolio, investor determine their risk taking ability and according to investor should decide the proportions of the portfolio.
3. **Formulation of Portfolio Strategy:** Portfolio Strategy is a roadmap by which investors can formulate their portfolio to achieve their financial goals. Investor has two ways to formulate their portfolio strategy, namely
   i. Active Portfolio Strategy;
   ii. Passive Portfolio Strategy.

Active Portfolio Strategy: Here investors focus on short term profit so they continuously monitor their portfolio. In this strategy investor take benefit from small fluctuation of changes in prices of the stocks. It is continues and outgoing process of buying and selling of securities.

Passive Portfolio Strategy: Here investors emphasis on buy-and-hold portfolio strategy for long-term investment horizons, with minimal trading in the market.in this strategy investors proceed maximize returns by minimizing buying and selling. Passive investing's goal is to build wealth gradually.

4. **Security Analysis:** security analysis process is majorly associated with two perceptions: Risk & Return. The risk and return provide the framework to the investors for constructing portfolio. Investor create '**efficient portfolio**' to consider a maximum return for given level of risk. Investors will explore the risk and return characteristics of individual assets, creating all possible portfolios, selecting the most efficient portfolios. Risk and return both are highly correlated. Security analysis helps to understand the nature and extent of risk and return of a particular security in the market. Security analysis involves both micro analysis and macro analysis. Fundamental

analysis and technical analysis helps the investors to identify the securities.

5. **Portfolio Execution**: After completing the process of security Analysis portfolio plan will execute by the investor. In this process investors execute their optimal or selected portfolio strategy .Investors involve in buying and selling of securities from the market.
6. **Portfolio Performance Evaluation:** This phase involves regular analysis and assessment of portfolio performances over the stipulated period. During this phase quantitatively measured that the portfolio has outperformed or underperformed relatively as per their benchmark. The evaluation of portfolio performance is important because, the investors who has been invested his funds need to know the comparative performance of the portfolio.
7. **Portfolio Revision**: Portfolio revision reveals changing the existing mix and proportion of various securities involved in portfolio. This process also acknowledged as reallocation of portfolio. After selecting the optimal portfolio investor is required to monitor it constantly to ensure that the portfolio remains optimal with passage of time. Due to dynamic changes in the economy and financial markets the attractive securities may cease to provide high returns at low risks.

CONCLUSION

The proverb "**cannot put the same shoe on every foot**" indicates to the fact that everyone is different and they deserves different things in life. This reflects that a particular strategy or a portfolio is not necessarily suited to all investors. So there is no certain criteria for investment strategy for the investors .Each investor has their own vision to create optimal portfolio. Investors develop a personalized financial strategy to consider their perceived risk and return on various investment vehicles. The investor perception regarding risk and return which will actually influence the decision. **Higher risk** is associated with **greater** probability of **higher return** and lower **risk** with a **greater** probability of smaller **return**. . It is important to analyse investment process of the securities to take decision for optimum and suitable portfolio.

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