[Summary]

Portfolio Theory (Part - 2)

Subject:	Business Economics
Course:	B. A. (Hons.), 5th Semester, Undergraduate
Paper No. & Title:	Paper – 511 Investment Management
Unit No. & Title:	Unit – 3 Portfolio Theory
Lecture No. & Title:	Lecture – 2 Portfolio Theory (Part - 2)

Summary:

The session explained various models of portfolio management. The main aim is risk minimization so as to maximize returns. Such models help the investor build an efficient portfolio by spreading the investment across various assets. The Markowitz model presents the efficient frontier explaining most efficient combinations. The same is modified by the concept of capital market line. The slope of CML is the rate of exchange between expected risk and return. The separation theorem also supports the risk appetite of the investor and identify market portfolio. Market portfolio defines an investor who would prefer all equity portfolio. The capital asset pricing model is based on the portfolio theory of harry Markowitz. It does not take into account the unsystematic risk. A characteristic line of a stock is the same as the security market line and is very useful when employing the capital asset pricing model, or when using modern portfolio formation techniques. The slope of the line, which is a measure of systematic risk, determines the risk-return tradeoff. Alpha is a measure of "excess" returns and is frequently used along with beta values to judge the performance of an individual stock or mutual fund manager. The Arbitrage Pricing Model forecasts a relationship between the returns of a portfolio and returns of a single asset through linear combination of many independent macro-economic variables. It is generally used as an alternative to CAPM. When CAPM uses markets expected return, APM uses the risky assets' expected return and the risk premium of a number of macro-economic factors. The understanding of models of portfolio management theory helps investors and portfolio managers take calculated risk while accomplishing short term and long term goals. Both the parties can calculate the market movements and revise the portfolio for enhanced returns.