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Article on Portfolio Management

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ABSTRACT: Making an investment on shares, debenture, and bonds are both profitable and exciting, but it involves a high amount of risk and it requires analytical skills. If an investor wants to make a profit out of above said securities, he must have considerable financial acumen as well as capable of facing risk. Now a day, Most of the peoples have inclination to make an investment on various portfolios such as Shares, Debenture, Bonds. But, they are unable to manage them prudently. So this article has been prepared with a view to providing suggestion to manage their portfolio in an effective way by using RSI (Relative strength Index) and ROC (Rate of Change).

I.INTRODUCTION

Meaning:

Portfolio refers to combination securities such as shares, debentures…etc. Portfolio Management refers to diversification of investment with a view to minimizing the risk and maximizing the returns. It serves as platform for the investors to diversify their portfolio among various investment avenues.

Definition:

The art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance.

Portfolio management is all about strengths, weaknesses, opportunities and threats in the choice of debt vs. equity, domestic vs. international, growth vs. safety, and many other tradeoffs encountered in the attempt to maximize return at a given appetite for risk

Objectives:

1. To discuss the concept of portfolio management.
2. To analyze the risk and return of various investment avenues.
3. To evaluate the performance of portfolio over a period of time.

Scope of the study:

1. It helps the investors to take appropriate investment decision.
2. It emphasizes wealth and profit maximization.
3. It helps in long- term investment decision.
4. It helps the investors to know the various risk associated with the return.

Need of the study:

1. Investor can generate highest return at a given level of risk.
2. It helps to identify the non -performing securities in the investment process and for improving these areas.
3. It helps the investors to choose the optimal portfolio.
4. Effective utilization of resources.

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5. Diversification of investment leads to minimization of risk.

Tools used in Portfolio Management:

Rate of Change:

The Rate of Change (ROC) indicator measures the percentage change of the current price as compared to the price a certain number of periods ago. The ROC indicator can be used to confirm price moves or detect divergences; it can also be used as a guide for determining overbought and oversold conditions.

$$\frac{\text{Close(today)} - \text{close(periods ago)}}{\text{Close(periods ago)}} * 100$$

To understand the concept of ROC easily, let us consider the following example.

Stock price of Narmada Pvt. Ltd is given below

Days	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**
Price	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	85	87	88	98

Calculation of 7 Day ROC

Days	**Closing Price**	**Closing Price 7 days ago**	**Price ratio**	**ROC = Ratio-1**
1	80			
2	81			
3	82			
4	83			
5	84			
6	85			
7	86	80	1.075	0.075
8	87	81	1.07	0.07
9	88	82	1.073	0.073
10	89	83	1.072	0.072
11	90	84	1.071	0.071
12	91	85	1.070	0.070
13	92	86	1.069	0.069
14	93	87	1.068	0.068
15	94	88	1.068	0.068
16	85	89	0.955	-0.045
17	87	90	0.966	-0.034
18	88	91	0.967	-0.033
19	98	92	1.065	0.065

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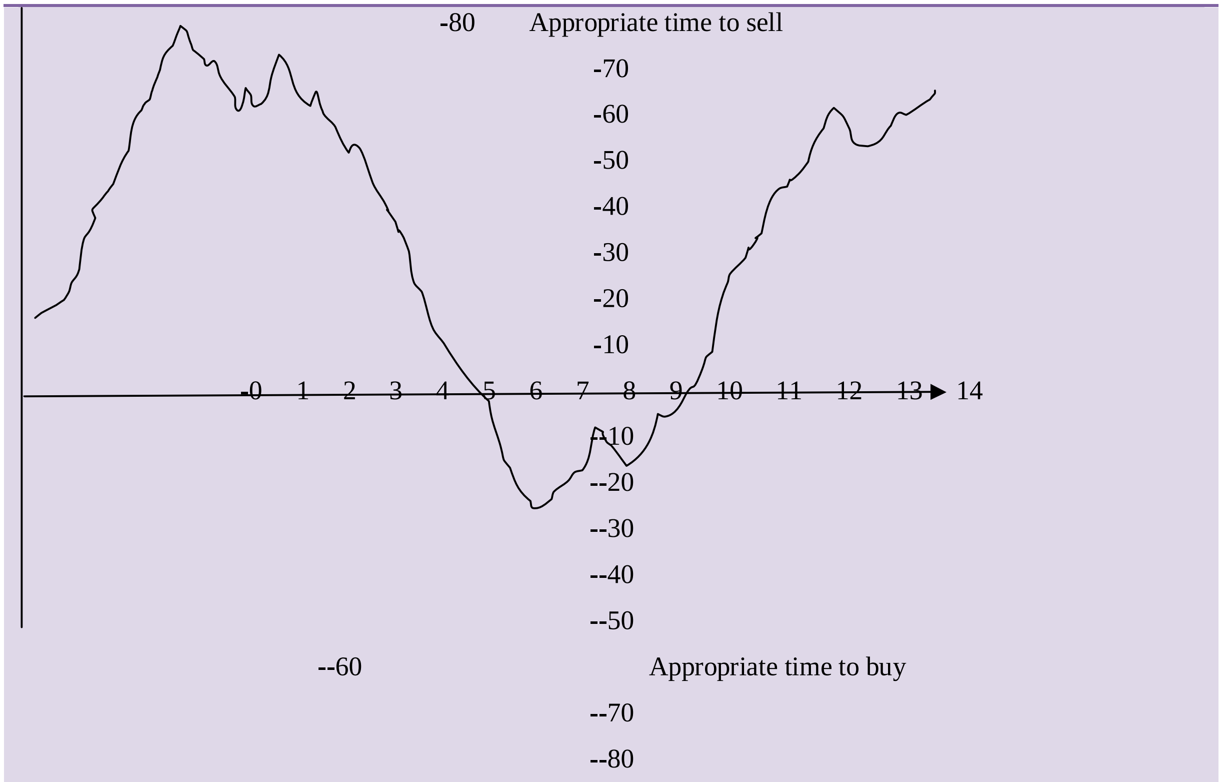


The above chart clearly shows that one should buy a share that is oversold and sell the share that is overbought. In the ROC Chart, overbought zone is above the zero line and the oversold zone is below the zero line

Relative Strength Index:

To understand the concept of RSI easily, let us consider the following example.

Stock price of Narmada Pvt. Ltd is given below

Day	Closing Price	Change over previous day	
		Gain	**Loss**
1	132	---	---
2	130	---	02
3	120	---	10
4	145	25	---
5	156	11	---
6	200	44	---
7	190	---	10
8	200	10	---
9	190	---	10
10	195	05	---
11	190	---	05

12	200	10	---
13	250	50	---
14	280	30	---
15	275	---	05
Total		**14 Day Average = 185 / 14** **= 13.21**	**14 Day Average = 42/ 14** **= 3**

$$\text{ROC} = \left(100 - 100/\,(1+\text{RS})\right)$$

RS = 13.21/ 3

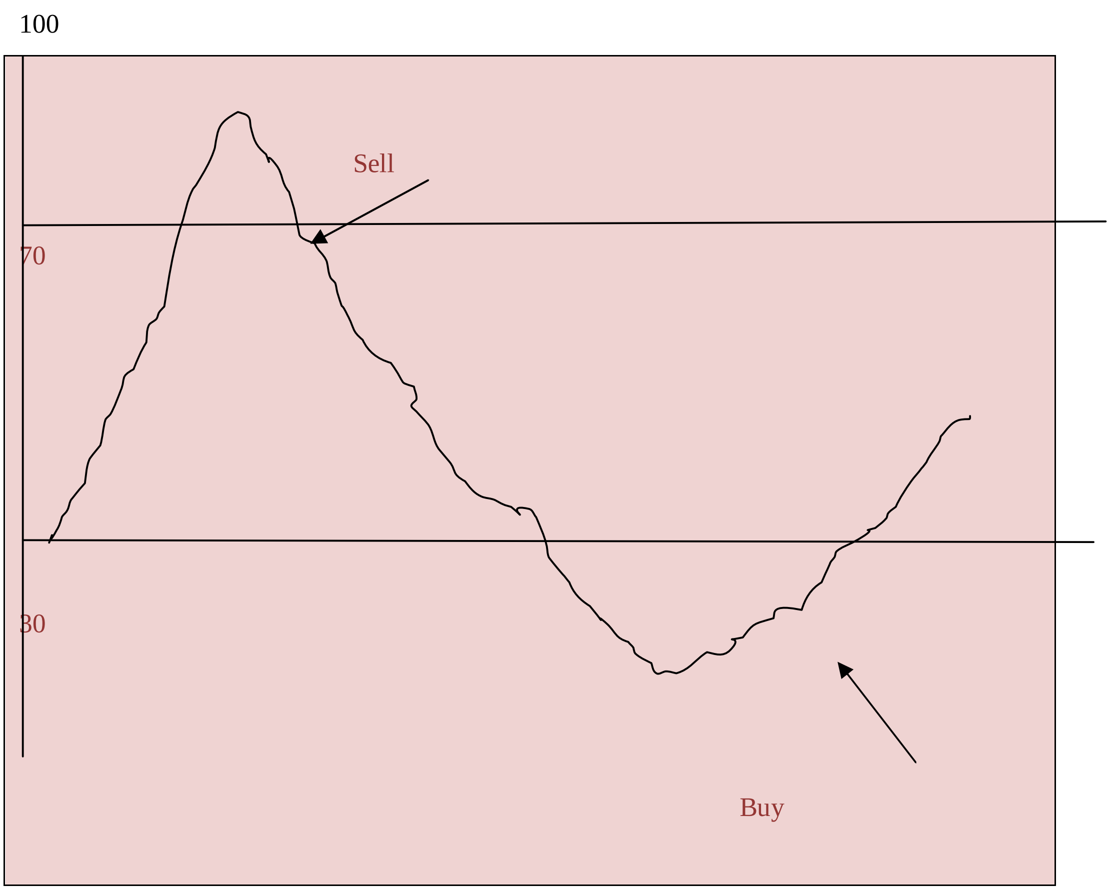
= **4.40**

RSI = 100 – (100 / (1+4.40)

= 100 **-** (100 / 5.40)

= 100 – 18.51

= 81.48



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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17

III.CONCLUSION

RSI Values above 70 are considered to denote overbought conditions and values below 30 are considered to denote oversold condition. When the RSI has crossed 30 lines from below to above and is rising, a buying opportunity is indicated. When it has crossed 70 line from above to below and is falling, selling signal is indicated.

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