

Portfolio Construction Using Beta Value on Selected it Companies Share Price

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ABSTRACT - Many of the investors they are using several parameters like Earnings Per Share, Return on Equity, Dividend Per Share, Debt to Profit and more to choose a best company share to invest. In this study we are focusing one more important parameter to determine share, which can enhance our returns. Stock Beta is our parameter, which can be easily applied to find shares.

Most of the investors they are skepticism in their investment selection. These types of parameters can overcome their doubts and helps them to find best companies to invest.

I. INTRODUCTION

A Portfolio is a bundle or combination of individual assets or securities. It enables investor to invest in diversified securities under risk. Investing in one security may be chances of high return or huge loss. But portfolio investment benefits the investor to do a diversified investment in different securities. This implies the balanced return on investment.

Risk may be classified in to systematic risk and unsystematic risk. The systematic risk, which affects the share price because of the environmental factors. Which may not be controlled. But the unsystematic risk happens because of the poor management of financial planning and investment. It can be controlled by proper selection of securities.

II. PROBLEM OF THE STUDY

The motto of every investor is to achieving high return from their investment. But most of the investors fail in selection of best shares to invest, they don't know the fundamental analysis to select share. The investor in general they don't have mind in taking risk. This study helps is tool tip to decision on their investment to maximize their profits.

III. OBJECTIVES OF THE STUDY

To measure the weighted average return on selected securities like Infosys, Tata Consultancy Services Limited and Wipro

To measure the systematic risk of the security using beta as a measure of risk.

IV. SCOPE OF THE STUDY

The study is confined to the statistics of the three leading companies in IT Industry.

The BETA is calculated based on the returns for limited period as share prices for the period of 12 months.

The research is done on using secondary data, which may limit the scope of the research work.

The research aims to aware the people about their selection of securities as well to make them understand about the importance of fundamental analysis while selection of shares.

The Index selected NSE 500

V. RESEARCH METHODOLOGY

Empirical research method is used in this research work.

a. TYPES OF DATA

Secondary data has been used for the analysis purpose. The Data taken for this research is 2019 January to December 2019 share price of the selected IT companies.

b. CALCULATION OF BETA VALUE

Beta value can be easily calculated through the following ways

For calculating Beta value, we need to sets of Data, which are, the closing stock price of the selected stock and the closing price of the index chosen as a proxy for the stock market such as NSE 500.

Beta = Covariance (Stock versus Market Return)/

Variance of the Stock Market.

Beta (β) range from -1 to +1

If $\beta > 1$ then, the volatility of stock will be more.

$\beta < 1$ then, the volatility of stock will be less.

$\beta = 1$ then, the volatility of stock will move with the market

VI. ANALYSIS AND INTERPRETATION

a. PORTFOLIO

TABLE 1.1

Test	Infosys	TCS	Wipro	Sum
Weight	20%	50%	30%	
Average Return	-0.15%	-0.23%	0.02%	
Weighted Average	-0.03%	-0.11%	0.01%	-0.14%
Beta	0.17	0.20	0.14	
Weighted Beta	0.033	0.099	0.043	0.175

b. INTERPRETATION

If the Beta value is greater than 1, then the selected stock price is more volatile. If the Beta value is less than 1, then the selected stock price has less volatile.

Beta value more than 1 indicates that the selected stock is more risky as well as more expected return.

Beta value less than 1 indicates that the selected stock is less risky as well as the return expected is also lower.

From the above table 1.1 indicate that the selected securities of Infosys, TCS and Wipro Beta values are 0.17, 0.20 and 0.14. It shows that the security is having less volatile. So the risk level of the security is also moderate. The selected securities returns will be also moderate, but these shares are safer to invest.

VII. FINDINGS

1. From the above table 1.1, we found that the shares of the selected companies share price are not more volatile.
2. It evidence that the selected shares risk level are very less.
3. So, the above shares are may be preferred to invest, those are expecting moderate return, and fear on taking risk.

VIII. SUGGESTIONS

Choosing company which the Beta value is more than 1, which indicates more volatile stock as well as the return also high, because risk implies the return.

Choosing company which the Beta value is less than 1, which indicates less volatile, the stock is safe to invest but the return expected is also low.

IX. LIMITATIONS

1. The Beta value of a stock is dependent on historical price movements and the historic price is not always an accurate factor of predicting the future.
2. Beta value does not account for lines of business and the heavy debt of the company holds.
3. It does not include the unexpected fall in the price.

X. CONCLUSION

This research tries to identify the effect of BETA valuation while investment also helps to educate the investor about the selection of less risky shares.

Basically the investor bothers about their investment rather than their returns. This study helps them to construct a portfolio which are equalized with its risk level to avoid the principal loss.

This research suggests additional parameter to find best shares to invest, not suggesting investor to ignore the fundamental analysis. Beta alone may not help you to find the best share to invest. The fundamental analysis is important as well the beta value adding value to your selection of securities and framing a best portfolio to invest.

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