INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

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Abstract

Investment Analysis is a classical application in Long-Range Planning. It deals with the investigation of uncertainties, the evaluation of alternatives, the answer to "What-if" questions. The study of how an investment is likely to perform and how suitable it is for a given investor. Investment analysis is key to any sound portfolio-management strategy. Investors not comfortable doing their own investment analysis can seek professional advice from a financial advisor. An analysis of past investment decisions. An investment analysis is a look back at previous investment decisions and the thought process of making the investment decision. Key factors should include entry price, expected time horizon, and reasons for making the decision at the time. For example, in conducting an investment analysis of a mutual fund, the investor would look at factors such as how the fund has performed compared to its benchmark. The investor could also compare performed to similar funds, its expense ratio, management stability, sector weighting, style and asset allocation. Investment goals should always be considered when analyzing an investment; one size does not always fit all, and highest returns regardless of risk are not always the goal. For any beginner investor, investment analysis is essential. performance.

Key words: Investment , analysis, alternatives, decision, management

Introduction

For most of the investors throughout their life, they will be earning and spending money. Rarely, investor's current money income exactly balances with their consumption desires. Sometimes, investors may have more money than they want to spend; at other times, they may want to purchase more than they can afford. These imbalances will lead investors either to borrow or to save to maximize the long-run benefits from their income. When current income exceeds current consumption desires, people tend to save the excess. Another possibility is that they can give up the immediate possession of these savings for a future larger amount of money that will be available for future consumption

An **investment** is the current commitment of rupee for a period of time in order to derive future payments that will compensate the investor for

(1) The time the funds are committed,

(2) The expected rate of inflation, and

(3) The uncertainty of the future payments.

ELEMENTS OF INVESTMENTS

The Elements of Investments are as follows**:**

a) Return: Investors buy or sell financial instruments in order to earn return on them. The return on investment is the reward to the investors. The return includes both current income and capital gain or losses, which arises by the increase or decrease of the security price.

b) Risk: Risk is the chance of loss due to variability of returns on an investment. Incase of every investment, there is a chance of loss. It may be loss of interest dividend or principal amount of investment. However, risk and return are inseparable. Return is a precise statistical term and it is measurable. But the risk is not precise statistical term. However, the risk can be quantified. The investment process should be considered in terms of both risk and return.

c) Time: time is an important factor in investment. It offers several different courses of action. Time period depends on the attitude of the investor who follows a 'buy and hold' policy. As time moves on, analysis believes that conditions may change and investors may revaluate expected returns and risk for each investment.

d) Liquidity: Liquidity is also important factor to be considered while making an investment. Liquidity refers to the ability of an investment to be converted into cash as and when required. The investor wants his money back any time. Therefore, the investment should provide liquidity to the investor

e) Tax Saving: The investors should get **the benefit of tax** exemption from the investments. There are certain investments which provide tax exemption to the investor. The tax saving investments increases the return on investment. Therefore, the investors should also think of saving income tax and invest money

INVESTMENT ATTRIBUTES

Every investor has certain specific objective to achieve through his long term or short erm investment. Such objectives may be monetary/financial or personal in character.

The Three financial objectives are:-

1. Safety & Security of the fund invested (Principal amount)

2. Profitability (Through interest, dividend and capital appreciation)

3. Liquidity (Convertibility into cash as and when require order to maximize the return on investment.

APPROACHES TO INVESTMENT ANALYSIS

The Fundamental Approach:

The Fundamental Approach is an attempt to identify overvalued and undervalued securities. The assumption for undervalued stock is that the market will eventually recognize its error and price will be driven up toward true value. Overvalued stocks are identified so that they can be avoided, sold or sold short. The investor should select stocks based on an economic analysis, industry analysis and company analysis.

The Technical Approach:

The Technical Approach centers around plotting the price movement of the stock and drawing inferences from the price movement in the market. The technicians believe that stock market history will repeat itself. Charts of past prices, especially those which contain predictive patterns can give signals towards the course of future prices. The emphasis is laid on capital gains or price appreciation in the short run.

The technicians believe that the stock market activity is simultaneously making different movements. Primarily it makes the long-term movement called the bull or bear market. The secondary trend is usually for short-terms and may last from a week to several weeks or months.

The secondary trend is a movement which works opposite the market's primary movement, i.e., a decline in a bull market or rally in a bear market. These are based on 'Dow Theory'. The third movement is the daily fluctuation which is ignored by the Dow Theory.

Efficient Market Theory:

The Efficient Market Theory is based on the efficiency of the capital markets. It believes that market is efficient and the information about individual stocks is available in the markets.

There is proper dissemination of information in the markets: this leads to continuous information on price changes. Also the prices of stock between one time and another are independent of each other and so it is difficult for any investor to predict future prices.

Each investor has equal information about the stock market and prices of each security. It is, therefore, assumed that no investor can continuously make profits on stock prices. Therefore, securities will proved similar returns at the same risk level.

Portfolio Management (PM) guides the investor in a method of selecting the best available securities that will provide the expected rate of return for any given degree of risk and also to mitigate (reduce) the risks. It is a strategic decision which is addressed by the top-level managers

Objectives of Portfolio Management

The main objectives of portfolio management in finance are as follows:-

1. **Security of Principal Investment** : Investment safety or minimization of risks is one of the most important objectives of portfolio management. Portfolio management not only involves keeping the investment intact but also contributes towards the growth of its purchasing power over the period. The motive of a financial portfolio management is to ensure that the investment is absolutely safe. Other factors such as income, growth, etc., are considered only after the safety of investment is ensured.

2. **Consistency of Returns** : Portfolio management also ensures to provide the stability of returns by reinvesting the same earned returns in profitable and good portfolios. The portfolio helps to yield steady returns. The earned returns should compensate the opportunity cost of the funds invested.

3. **Capital Growth** : Portfolio management guarantees the growth of capital by reinvesting in growth securities or by the purchase of the growth securities. A portfolio shall appreciate in value, in order to safeguard the investor from any erosion in purchasing power due to inflation and other economic factors. A portfolio must consist of those investments, which tend to appreciate in real value after adjusting for inflation

4.**Marketability** : Portfolio management ensures the flexibility to the investment portfolio. A portfolio consists of such investment, which can be marketed and traded. Suppose, if your portfolio contains too many unlisted or inactive shares, then there would be problems to do trading like switching from one investment to another. It is always recommended to invest only in those shares and securities which are listed on major stock exchanges, and also, which are actively traded.

5.Liquidity : Portfolio management is planned in such a way that it facilitates to take maximum advantage of various good opportunities upcoming in the market. The portfolio should always ensure that there are enough funds available at short notice to take care of the investor's liquidity requirements.

6.Diversification of Portfolio : Portfolio management is purposely designed to reduce the risk of loss of capital and/or income by investing in different types of securities available in a wide range of industries.

The investors shall be aware of the fact that there is no such thing as a zero risk investment. More over relatively low risk investment give correspondingly a lower return to their financial portfolio.

7.Favorable Tax Status : Portfolio management is planned in such a way to increase the effective yield an investor gets from his surplus invested funds. By minimizing the tax burden, yield can be effectively improved. A good portfolio should give a favorable tax shelter to the investors. The portfolio should be evaluated after considering income tax, capital gains tax, and other taxes.

CONCLUSION

Portfolio Management (PM) guides the investor in a method of selecting the best available securities that will provide the expected rate of return for any given degree of risk and also to mitigate (reduce) the risks. It is a strategic decision which is addressed by the top-level managers. Portfolio management is also known as investment management which consists of managing the investment securities options.

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