A STUDY ON ESTIMATION OF RISK AND RETRUN IN SELECTED EQUITIES

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1. INTRODUCTION:

Introduction

Risk

Risk is the chance that an investment's actual return will be less than its expected return. This risk of loss is linked to the expected variability in the investment's return. The more volatile an investment's return is, the greater the chance investors' will experience a loss.

EQUITY ANALYSIS

There are two major equity analysis i.e. fundamental analysis and technical analysis. Both analysis has different way. Fundamental analysis analyze the financial statement of company; meanwhile, the technical just analyze the price movement.

In accounting and finance, **equity** is the residual claim or interest of the most junior class of investors in assets, after all liabilities are paid. If valuations placed on assets do not exceed liabilities, negative equity exists. In an accounting context, **Shareholders' equity** (or stockholders' equity, shareholders' funds, shareholders' capital or similar terms) represents the remaining interest in assets of a company, spread among individual shareholders of common or preferred stock.

At the start of a business, owners put some funding into the business to finance operations. This creates a liability on the business in the shape of capital as the business is a separate entity from its owners. Businesses can be considered to be, for accounting purposes, sums of liabilities and assets; this is the accounting equation. After liabilities have been accounted for, the positive remainder is deemed the owner's interest in the business.

This definition is helpful in understanding the liquidation process in case of bankruptcy. At first, all the secured creditors are paid against proceeds from assets. Afterward, a series of creditors, ranked in priority sequence, have the next claim/right on the residual proceeds. Ownership equity is the last or residual claim against assets, paid only after all other creditors are paid. In such cases where even creditors could not get enough money to pay their bills, nothing is left over to reimburse owners' equity. Thus owners' equity is reduced to zero. Ownership equity is also known as risk capital, liable capital or simply, equity.

Equity investments

An equity investment generally refers to the buying and holding of shares of stock on a stock market by individuals and firms in anticipation of income from dividends and capital gains, as the value of the stock rises. It may also refer to the acquisition of equity (ownership) participation in a private (unlisted) company or a startup company. When the investment is in infant companies, it is referred to as venture capital investing and is generally understood to be higher risk than investment in listed going-concern situations.

The equities held by private individuals are often held via mutual funds or other forms of collective investment scheme, many of which have quoted prices that are listed in financial newspapers or magazines; the mutual funds are typically managed by prominent fund management firms, such as Schroders, Fidelity Investments or The Vanguard Group. Such holdings allow individual investors to obtain the diversification of the fund(s) and to obtain the skill of the professional fund managers in charge of the fund(s). An alternative, which is usually employed by large private investors and pension funds, is to hold shares directly; in the institutional environment many clients who own portfolios have what are called segregated funds, as opposed to or in addition to the pooled mutual fund alternatives.

A calculation can be made to assess whether an equity is over or underpriced, compared with a long-term government bond. This is called the Yield Gap or Yield Ratio. It is the ratio of the dividend yield of an equity and that of the long-term bond

NEED AND IMPORTANCE OF STUDY

The listed company which trade shares in public is an interesting topic. The are so many books who study about equity. The Investors are interesting in equity analysis because it could give us so many return. The good analysis could predict which company could give multiple returns. The investor has invested money at the company and they

It is impossible that a bad company could give us high return. Garbage in, Garbage out. Unfortunately, some bad companies looks very good. They often manipulate the financial statement.

The equity analysis may disclose the real company condition. This analysis is also important not only for investor but also other company.

SCOPE OF THE STUDY

- ‘Investor can assess the company financial strength and factors that affect the company. Scope of the study is limited. We can say that 70% of the analysis is proved good for the investor, but the 30% depends upon market sentiment.

- The topic is selected to analyses the factors that affect the future EPS of a company based on fundamentals of the company.

- The market standing of the company studied in the order to give a better scope to the Analysis is helpful to the investors, share holders, creditors for the rating of the company.

OBJECTIVE OF THE STUDY

This study is done to know about Primary and Secondary market (Stock exchange) activities.

- To study the process of Equity analysis.
- To know how to calculate Return and Risk of Select Equities.
- To Study the pattern of investment through risk and return analysis.

To suggest the investors to buy equities on the basis of Return and Risk

2. LITERATURE SURVEY

The SECURITY ANALYSIS relationship is a fundamental concept in not only financial analysis, but in every aspect of life. If decisions are to lead to benefit maximization, it is necessary that individuals/institutions consider the combined influence on expected (future) return or benefit as well as on risk/cost. The requirement that expected return/benefit be commensurate with risk/cost is known as the "risk/return trade-off" in finance.

This session discusses the trade-off and, using conventional statistical tools, provides a method for quantifying risk. Two categories of risk borne by the firm's stockholders, business risk and financial risk, are discussed and demonstrated, as is the concept of leverage. The session also examines risk reduction via portfolio diversification and what requirements need to be met for firms to experience the benefits of diversification. The Capital Asset

Pricing Model (CAPM) is used to demonstrate the risk/return trade-off by relating the required return on the firm's investments to its beta (or market) risk.

Risks In equity investment:

Although an equity investment is the most rewarding in terms of returns generated, certain risks are essential to understand before venturing into the world of equity. These can be described as follows:

a. Market/ Economy Risk:
b. Industry Risk:
c. Management Risk:
d. Business Risk:
e. Financial Risk:
f. Exchange Rate Risk:
g. Inflation Risk:
h. Interest Rate Risk:

IMPORTANT LEARNING TERMS:

Systematic Risk:

Systematic Risk, as the name suggests is the risk inherent in the economic system. Macro factors such as domestic as well as international policies, employment rate, the rate and momentum of inflation and general level of consumer confidence etc. are what constitute systematic risk. Generally, investors cannot hedge or diversify against this risk as it affects all kinds of asset class an affects the entire economyas such.

Unsystematic Risk:

This is the risk inherent in a particular asset class. The best way to combat this risk is by diversification. However, one must remember that the diversification must be in the class of asset and not the asset itself. An example of the above is evenly distributing your portfolio in bank deposits, Reserve Bank of India (RBI) bonds, real estate and equities. That way if a certain unsystematic risk affects let's say the real estate market (say the prices crashes), then the presence of other classes of assets in your portfolio saves you from a total washout. However, note that diversifying within the same asset class (buying different equity shares) is not strictly combating Systematic and unsystematic risk

Understanding Unsystematic Risk :

The one thing that almost all investors would agree upon is the fact that equity is definitely more risky than debt. Irrational exuberance with a rising market has left many an investor losing their shirts and in some cases even more sensitive garments. Classes and affect entire economy as such. However, does this mean that investing in debt instruments is entirely risk-free? Unfortunately, the answer is in the negative though the volatility is much less. So first, let us examine what kind of risks do debt instruments pose

Interest Rate Risk :

Interest rates and prices of fixed income instruments share an inverse relationship. In other words, when the overall interest rates in the economy rise, the prices of fixed income earning instruments fall and vice versa. Interest rates in the economy Nov fluctuate due to several factors such as a change in the RBI's monetary policy, Cash Reserve Ratio (CRR) requirements, forex reserves, the level of the fiscal deficit and the consequent inflation outlook etc. Extraneous factors such as energy price fluctuations, commodity demand and supply and even capital flows Nov result in rates fluctuating.

Then there are the event-based factors that affect interest rates. For example, the 11/9 episode in the United States of America and 13/15 in India. If there is a war, interest rates will rise. However, typically such events are temporary in nature and in fact a good fund manager can actually take advantage of such hiccups..

3. RESEARCH METHODOLOGY

The data collection methods include both the Primary and Secondary Collection methods.

1. Primary Collection Methods:

This method includes the data collected from the personal discussions with the authorized clerks and members of the Exchange.

2. Secondary Collection Methods:

The Secondary Collection Methods includes the lectures of the superintend of the Department of Market Operations, EDP etc, and also the data collected from the News, Magazines of the NSE, HSE and different books issues of this study

LIMITATIONS OF THE PROJECT

- Time constraint was a major limiting factor. Forty five days were insufficient to even grasp the theoretical concepts.
- Several other strategies that could have been studied were not done.

4. FINDINGS OF THE STUDY

1. Risk & return of Baja Auto for a period of 3 months. The avg return is -0.44826 and risk is 1.4252. The highest market price is 3409.5 0n 22-02-2018. The lowest market price is 2971 on 1-2-2018.
2. Risk & return of Cipla for a period of 3 months. The avg return is -0.22166and risk is 1.5338. The highest market price is 622.6 0n 23-01-2018. The lowest market price is 565.65 on 6-2-2017.
3. Risk & return of Hcl technologies for a period of 3 months. The avg return is 0.075965 and risk is 1.5234.The highest market price is 1018.85 0n 24-01-2018. The lowest market price is 829.55 on 1-12-2017
4. Risk & return of Infosys for a period of 3 months. The avg return is 0.295232 and risk is 1.1191. The highest market price is 1185.15 0n 19-01-2018. The lowest market price is 958.5 on 06-12-2017
5. Risk & return of Maruti Suzuki for a period of 3 months. The avg return is -0.1542 and risk is 1.4754. The highest market price is 9804.5 0n 19-12-2017. The lowest market price is 8496.25 on 5-12-2017
6. Risk & return of NTPC for a period of 3 months. The avg return is -0.24747and risk is 0.8709. The highest market price is 181.15 0n 1-12-2017. The lowest market price is 160.5 on 22-2-2018
7. Risk & return of ONGC for a period of 3 months. The avg return is -0.26813and risk is 1.3009. The highest market price is 210.5 0n 24-01-2018. The lowest market price is 175.8 on 06-12-2017
8. Risk & return of Reliance for a period of 3 months. The avg return is -0.11869and risk is 1.1197. The highest market price is 981.7 0n 23-01-2018. The lowest market price is 892.75 on 06-2-2018
9. Risk & return of Wipro for a period of 3 months. The avg return is -0.13051and risk is 1.6499. The highest market price is 331.9 0n 16-01-2018. The lowest market price is 281.35 on 7-12-2017
10. Risk & return of Tcs for a period of 3 months. The avg return is -0.24747and risk is 0.8709. The highest market price is 181.15 0n 1-12-2017. The lowest market price is 160.5 on 22-2-2018.
11. Risk & return of BSE SENSEX for a period of 3 months. The avg return is -0.03339 and risk is 0.6165.The highest market price is 36283.25 0n 6-12-2017. The lowest market price is 32597.18 on 29-1-2018.

5. SUGGESTIONS

1. In case a trader entering in a new industries first he has to select stocks to buy in new industries after making careful study
2. Even though risk and return analysis is enough for making decision in stock market, simultaneous usage of both technical and fundamental analysis will reduce the errors in forecasting
3. Investor who want to take risk can invest in the banking sectors because in the long run banking sector may give good results
4. Risk averse investors can invest in the Automobile sectors which yields good results

5. Though Technical Analysis is considered more of an art rather than science and from academic perspective it might not have got the due recognition but it has been found that if used with a discipline
6. It can serve as a complementary tool to fundamental analysis i.e. fundamental Analysis can be used for making Buy/Sell decision where as Technical Analysis can be used for deciding a right time to buy/sell

6. CONCLUSION

Any rational investor, before investing his or her investible wealth in the stock, analyses the risk associated with the particular stock. The actual return he receives from a stock may vary from his expected return and the risk is expressed in terms of variability of return. Investors in general would like to analyze the risk helps him to plan his portfolio in such a manner so as to minimize the risk associated with the investment.

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