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Risk and Return are the Two Facets of the Same Picture.

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Nancy Jain

46, Jain Milan Vihar, Muzaffarnagar (U.P.)

ABSTRACT *Invest in projects that yield a return greater than the minimum acceptable hurdle rate. Firstly we have to analyze the investment opportunity that we have with us and then we have to analyses the risk that was associated with that security. The investor should evaluate that in which he has to invest the money and then he should see the market value of that security and the growth factor in that particular security because each security has certain growth and with that growth there is risk and return also. In this we cover the risk and return factor while investing the money in Equity. Every company and institutional investors, individual investors and investment consultant should have the appropriate financial leverage i.e. equal mixture of Debt and Equity so that we can minimize the hurdle rate. When we invest the money in Equity we have to analyze the various things that directly affect our investment i.e. risk, return, time horizon and other factors that affect the investment.*

Introduction

Equity means the equity share capital of the company that was very risky and the market of the equity share is volatile in nature and we take high risk while investing money in this market but we get high return on this market and the person who is investing money in this market is called Risk Seeker. As we compare the equity market of India with the World Equity Market we say that Indian equity market has high level of volatility as compared to world equity market.

Equity market is growing at a faster rate because of the awareness that the investors get and in modern days investors take the high risk so that they can get the high return in that market but in the traditional days the investors are not taking the risk they want that there money should be safe and earn appropriate return on their investment. By investing money in the equity market the investor prepare the portfolio of the various company equity share because portfolio is the bundle of securities that shows the performance of the investment and also shows the growth aspect of the shares through portfolio we can ascertain the growth of each and every security and redeem that security which is not performing and showing negative result and if the investor bear some loss in the particular security and other security is giving a profit then the loss that was bear is compensated . Before investing money in Equity Share the investor should have to see the past performance and risk associated with that and he also ascertain the return the that was giving in the past because on the basis of the past return we can project the future returns and growth of the particular security due to high volatility in the Indian market.

There are various models to measure the risk and return of securities and on the basis of these models the companies decide how much return that the investor can get by investing in particular security and how much risk the particular security holds with it. Firstly we have define the risk in terms of variance in actual returns around an expected return; therefore, when actual returns are always equal to the expected return then the investment is risky less. Second, they all argue that risk has to be measured from the perspective of the marginal investor in an asset, and that this marginal investor is well diversified. Therefore, the argument goes, it is only the risk that an investment adds on to a diversified portfolio that should be measured and compensated.

In fact, it is this view of risk that leads models of risk to break the risk in any investment into two components. There is a firm-specific component that measures risk that relates only to that investment or to a few investments like it, and a market component that contains risk that affects a large subset or all investments. It is the latter risk that is not diversifiable and should be rewarded.

While all risk and return models agree on this fairly crucial distinction, they part ways when it comes to how to measure this market risk. The following table summarizes four models, and the way each model attempts to measure market risk:

Table 1:

The CAPM	The Arbitrage	Multi Factor Models	Proxy Models
If there is : ▪ No transaction cost ▪ No private information ▪ The optimal diversified portfolio includes every assets traded. Everyone holds this market portfolio Market Risk= Risk added by the any assets to the market portfolio.	Arbitrage is a process that implies buying the security from one market and sells them in another market. When there is no arbitrage opportunity available then the market risk of any assets is captured by the betas other factors that affect all the securities. Market Risk= Risk contact to any assets to market factors.	Market risk affects all most all the investments in securities because in this the macro economic factors are considered. Market risk= Risk exposures to any investment in assets to macro-economic factors (like Interest Rate, Inflation, GDP).	There is difference in return on equity in long range in efficient market this is due to the differences in the market risk. As we see the variables correlated with the return then proxies for the risk is given to them. Market Risk= risk captured by the proxies variables.

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Some other Factors of risk measurement in equity:

Beta factor: Beta means the volatility that a particular security has that means risk associated. The risks that were associated with a stock are captured by a particular number, beta. But variance measures the deviation of returns from the mean; beta measures the co-movement of a security in relation to the market. A stock which moves in bicycle with the market has beta1. A stock with greater variance than the market average in that condition the beta is also greater than one, subsequently the stock with less variance than the market there beta is also less than one. The variance and beta can run with a same paddle.

Suppose there is three company; Amazon, Yebhi.com and Flipkart and we have a beta of these three company of different time period as shown in the table:

Particulars	One year	Two Year	Five year
Yebhi.com	1.36	1.11	0.90
Amazon	1.66	1.48	NA
Flipkart	1.86	1.49	1.11

As you see that the beta of these companies may varies from time to time from 1 to 5 years, Beta of Yebhi.com decreases from 1 year to 5th year that means the riskiness of the security will also decreases. Stocks having beta of one are riskier than the market while stocks having beta of less than one carry lesser risk the market. There is also possibility to have negative beta if the returns on the stock and the market are negatively correlated. We say Variance is a comparison of self while beta comparison to market as a whole.

$$\beta = \frac{\text{Covariance of stock market}}{\text{Variance of the market.}}$$

Coefficient of variation: it helps in to measure the risk per unit of expected return. It converts the standard deviation of expected values into relative values to enables the comparison that was associated with the assets that have different expected values.

$$\text{Coefficient of variation} = \frac{\text{Standard Deviation}}{\text{Expected value on assets}}$$

Variance as a measure of volatility from an average mean of a stocks. Variance as a measure of risk helps the investor to know about the risk when he was purchasing the particular security.

Equity market growth: In terms of earning and their valuation

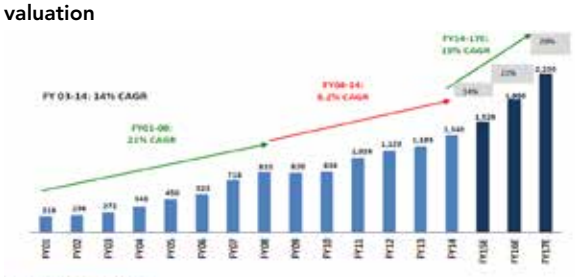

Diagram 1:

We believe that future is uncertain and the equity market is very volatile in nature so we predict the movement of indices of market and as we can see the market condition of 2015 is very good and in the near future is growing as we shown in the diagram. In FY2001 the earning was 216 and year on year the earning goes on increasing and in FY 2015 the earning was 1529 and continue growing till FY 2017. As with the increase in equity over and over in financial year the Compound Annual Growth Rate is also increases from 2.1% to 19% .

Comparison of Equity market with the other market:



Diagram 2:

As we can see that there are various securities and among all the securities the best performing assets class in Current year is Equity. Gold is given the negative return because of various factors like demand and prices of the gold etc. And next best performing assets class is treasuries these are long term treasury and in long run the security given a better return as compare to the short run market. So while investing money in the market we have to see the returns of other securities also because of the changing trends, the perception of the investors and now a day's investors behave rationally.

Return on Equity Market:



Diagram 3:

As we see that the Sensex and Nifty indices gives the highest return in equity while comparing other indices there are major reasons for higher return in the market like large number of securities trade by various sectors IT, FMCG, Bankex, Healthcare sector, PSU and many other sectors; the IT market sector gives the higher return is about 60% (approx.) and the FMCG sector gives 5% return but in 2013 it gives 10% (approx.) return, PSU gives about 25% (approx.) return and in 2013 it gives negative return and the same applies to the health care it give positive return in 2013 but in 2014 it gives negative return and Bankex gives Almost 30% (approx.) return in the equity market. There are various markets that show negative and positive return but as we see the Indian Market gives the highest return than other markets.

Conclusions:

Investment increases the wealth of the person and in this changing environment complexities are increases day by day so we have to save our future by making investment in the Equity market as you can see that there are various sector that gives the highest return in equity market and the growth aspect is also very high in equity market. As we consider equity market is very volatile in nature but there

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is something very good about this market is that the return is very high in this market and most of the investor think that debt market is safe and good but the return on debt market is not up to the mark as we compare to the equity market. In 2014 the FIIs Flow in equity is quite very large as we compare to 2013, in March 2014 the FII is more than Rs.25000 (in crore). So as we see there are different positive aspects for investment in Equity and one more also the Earning Growth rate in equity in 2014 is 14% and the estimated growth rate in 2015 is same as 2014 is 14% but there is a rise in growth rate of 2016 estimate is 18%. This rise is growth rate helps the investor to earn the more from their investment. In Global Market the overall return given equities is 10% and risk is 12% up to 2015, Feb. Investing money in securities lead to the generation of the income that is more than the expected one and the investors should also see the risk factor that was involved in securities and the risk exist because of the market condition. At last i suggest to the investors to invest the money in a disciplined way. And investors should follow a well well-organized assets allocation with planned diversification.

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