A STUDY ON RISK RETURN ANALYSIS WITH REFERENCE TO HDFC.

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Abstract
Risk & Return Analysis is used to select a portfolio of new product development projects to achieve the following goals:

- *Maximize the profitability or value of the portfolio*

- *Provide balance*

- *Support the strategy of the enterprise*

- *The weighting of the goals in making decisions about products varies from company*
- *Several types of techniques have been used to support the Risk & Return Analysis process:*

- *Heuristic models*

- *Scoring techniques*

- *Visual or mapping techniques*

The earliest Risk & Return Analysis techniques optimized projects' profitability or financial returns using heuristic or mathematical models. However, this approach paid little attention to balance or aligning the portfolio to the organization's strategy. Scoring techniques weight and score criteria to take into account investment requirements, profitability, risk and strategic alignment

Introduction

Risk-Return Analysis opens the door to a groundbreaking four-book series giving readers a privileged look at the personal reflections and current strategies of a luminary in finance. This first volume is Markowitz's response to what he calls the "Great Confusion" that spread when investors lost faith in the diversification benefits of MPT during the financial crisis of 2008. It demonstrates why MPT never became ineffective during the crisis, and how you can continue to reap the rewards of managed diversification into the future. Economists and financial advisors will benefit from the potent balance of theory and hard data on mean-variance analysis aimed at improving decision-making skills.

Relationship between risk and return

Investors are risk averse; i.e., given the same expected return, they will choose the investment for which that return is more certain. Therefore, investors demand a higher expected return for riskier assets. Note that a higher expected return does not guarantee a higher realized return. Because by definition returns on risky assets are uncertain, an investment may not earn its expected return.

- Portfolio management is the management of various financial assets which comprise the portfolio.
- Portfolio management is a decision – support system that is designed with a view to meet the multi-faced needs of investors.
- According to Securities and Exchange Board of India Portfolio Manager is defined as: "Portfolio means the total holdings of securities belonging to any person".

Objectives

- Study the investment pattern and its related risks & returns In The Housing To Development Finance Corporation Limited (HDFC).
- To find out optimal portfolio of The Housing Development Finance Corporation Limited (HDFC), which gave optimal return at a minimize risk to the investor in HDFC.
- To see whether the portfolio risk is less than individual risk on whose basis the portfolios are constituted
- To see whether the selected portfolios is yielding a satisfactory and constant return to the investor

About HDFC.

An **HDFC securities** Limited is a financial services intermediary and a subsidiary of HDFC Bank private sector bank in India. It is one of the leading stock broking companies in India and have completed 15 years in operation. An HDFC security was founded in the year 2000 and is headquartered in Mumbai with branches across major cities and towns in India.

Review of Literature

The principle that potential return rises with an increase in risk. Low levels of uncertainty (low-risk) are associated with low potential returns, whereas high levels of uncertainty (high-risk) are associated with high potential returns. According to the risk-return tradeoff, invested money can render higher profits only if it is subject to the possibility of being lost.

Investors are risk averse; i.e., given the same expected return, they will choose the investment for which that return is more certain. Therefore, investors demand a higher expected return for riskier assets. Note that a higher *expected* return does not guarantee a higher *realized* return. Because by definition returns on risky assets are uncertain, an investment may not earn its expected return.

Although itshow historical (realized) returns rather than expected (future) returns, they are useful to demonstrate the relationship between risk and return. Note that the mean (average) annual return increases as the dispersion of returns increases.

If inflation is considered, even money market securities have some risk. They may not achieve the expected real (inflation-adjusted) return. Unexpected inflation may reduce the *real* return below the *expected* return of the money market investment. Uncertainty in real returns can be eliminated by investing in inflation-indexed securities, such as Treasury Inflation Protected Securities (TIPS) and Series I Savings Bonds (I Bonds). In return for this reduction of uncertainty, investors must accept lower expected returns. Even inflation-linked securities have risks; e.g., TIPS have interest-rate risk, re-investment risk, and liquidity risk. No investment is truly risk-free.

The Performance History of the Asset Classes: The main bar graph shows the range of returns observed for the following four asset classes:

- International Shares
- Australian Shares
- Bonds
- Cash

Investment periods of 1-year, 3-years, 5-years, 10-years and 20-years are graphed.

Where Investors Achieved the Greatest Growth: The area column graphs at the bottom of the inside spread summaries how frequently each asset class outperformed the others over investment periods ranging from one year to twenty-five years. The first of these graphs compares Australian shares, bonds and cash since 1950. The second includes international shares, but relies on data since 1970 only. Both the main bar graph, and the area column graphs highlight the historical tendency for equity investments to outperform fixed interest and cash over longer investment periods.

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Methodology
The data collection methods include both the primary and secondary collection methods.

Primary Data
This method includes the data collection from the personal discussion with the authorized clerks and members of the HDFC financial services.
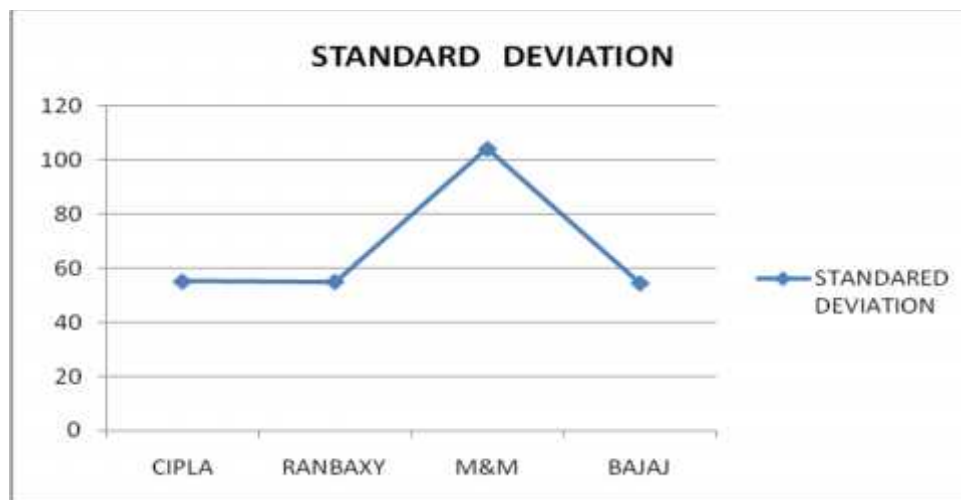
Secondary Data
The secondary collection methods includes the lectures of the superintend of the department of market operations and so on., also the data collected from the news, magazines and different books issues of this study Superintend
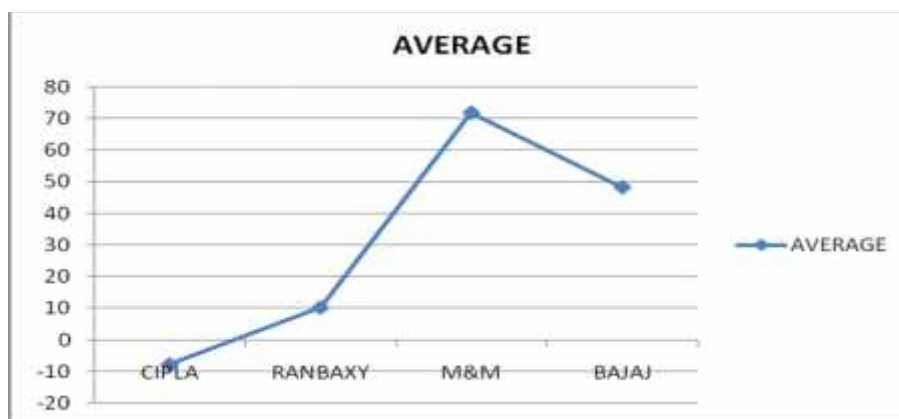
Data Analysis

Standard Deviation

COMPANY	STANDARED DEVIATION
CIPLA	55.22
RANBAXY	55.13
M&M	104.186
BAJAJ	54.60

Standard Deviation
Average Return of Companies

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COMPANY	AVERAGE
CIPLA	-7.744
RANBAXY	10.18
M&M	71.758
BAJAJ	48.175

Average
Correlation Coefficient

COMPANY	...
BAJAJAUTO&MAHINDRA	0.605
CIPLA&RANBAXY	0.0295
CIPLA&BAJAJ	0.690
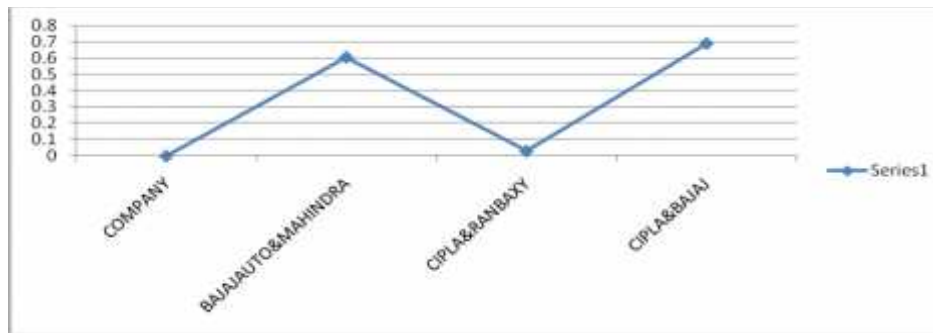
Correlation Coefficient

Portfolio Return & Portfolio Risk

Two Portfolios	Correlation Coefficient $\cdots_{ab}$	Company Xa	Company Xb	Portfolio Return Rp	Portfolo Risk p
CIPLA&RANBAXI	0.0295	0.49916	0.50084	1.2335	39.58
BAJAJ and M&M	0.605	1.0662	-0.0662	46.614	54.14

Portfolio Return

$$R_P = \overline{R}_a \, X_a + \overline{R}_b \, X_b$$

Portfolio Risk $\dagger_P = \sqrt{X_a^2 \dagger_a^2 + X_b^2 \dagger_b^2 + (2 X_a X_b) \cdots_{ab} \dagger_a \dagger_b}$

Discussion and Conclusion
Discussion: Investor would be able to achieve when the returns of shares and debentures Resultant portfolio would be known as diversified portfolio. Thus portfolio construction would address itself to three major via. Selectivity, timing and diversification. In case of portfolio management, negatively correlated assets are most profitable. Correlation between the BAJAJ are negatively correlated which means both the combinations of portfolios are at good position to gain in future. Investors may invest their money for long run, as both the combinations are most suitable portfolios. A rational investor would constantly examine his chosen portfolio both for average return and risk.

Conclusions
In case of perfectly correlated securities or stocks, the risk can be reduced to a minimum point. In case of negatively correlative securities the risk can be reduced to a zero.(which is company's risk) but the market risk prevails the same for the security or stock in the portfolio.

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