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Security Analysis & Portfolio Management

Miscellaneous

IMPORTANT TERMS

Systematic Return: Systematic return is that part of the excess return that depends upon the benchmark return and is calculated as beta times benchmark excess return. (The **systematic return** is the beta times the benchmark excess **return**.)

Risk Adjusted Returns: Risk-adjusted return is the return generated by an investment relative to the amount of risk the investment has taken over a given period of time. If two or more investments have the same return over a given time period, the one that has the lowest risk will have the better risk-adjusted return.

Portfolio: Portfolio is a combination of securities such as stocks, bonds, etc.

Portfolio Analysis: Portfolio analysis is the determination of future risk and return in holding various combinations of individual securities.

Portfolio construction: The process of blending together the securities so as to obtain optimum return with minimum risk is called portfolio construction.

Valuation of assets: Asset valuation is the process of determining the current worth of an asset. **It is the process of assessing the value of a company, real property or any other item of worth, in particular assets that produce cash flows.** Assets can include stocks, bonds, buildings, equipment and intangible assets such as brands and goodwill.

Arbitrage: *Arbitrage* is the simultaneous purchase and sale of an asset to profit from a difference in the price. It is the practice of taking advantage by exploiting the price differences of identical or similar financial instruments in different markets or in different forms. In simple words, arbitrage is the **simultaneous buying and selling of a security at two different prices in two different markets, resulting in profits without risk**.

Efficient Frontier: The efficient frontier is the set of optimal portfolios that offers the highest expected return for a defined level of risk OR the lowest risk for a given level of expected return.

Volatility: Volatility is a statistical measure of the tendency of a market or security to rise or fall sharply within a short period of time.

Volatile Market: Volatile markets are ones where the price changes vigorously and unpredictably. This is a market with a great deal of price instability.