

Risk and Return Analysis of Equity Shares with Special Reference to Companies (NSE) Stock Index

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Abstract

Stock market research is essential to good financial and investment decision making. It will be able to determine the market price and trading volume for the stock, high and low price for the stock over different periods and the earnings for the company. To ascertain the right choice of a security or portfolio to an investor, it depends on the level of risk that the stock carries. An estimation of the risk-return profile of a security or portfolio is an important aspect in investment management. The stock market research will allow one to assess the possible risk of a stock against the possible rewards the stock may offer. The present study in this context is relevant in explaining the parity between risk and return in the Indian equity market. It will definitely help the stakeholders to take appropriate decision regarding the time of investment, horizon of investment, quantum of investment and even portfolio selection.

Keywords: risk and return, portfolio decisions, volatility of share prices.

I. INTRODUCTION

The Indian stock market has gained a new life in the post-liberalization era. It has experienced a structural change with the setting up of SEBI, opening up to the foreign investors, establishment of the NSE, initiation of the screen based trading system, dematerialization of securities and introduction of derivative instruments. The activities of the market have increased in all respects. Market capitalization has increased spectacularly. Number of listed companies has gone up. But the most important and amazing phenomena of all are the movement of secondary market share prices which are reflected in either the upward or downward trend in the major share price indices in the country. The stock market reflects the performance of an economy. When the economy does well and the companies make lucrative profit, people get induced to invest in stocks because they expect higher return from their stockholding.

In the present competitive globalised business scenario, risk is attached with every dimension. Financial markets are not free from imperfections, which make results inconsistent with the expectations. The concept of risk management in case of investment decision assumes greater importance in the modern day financial management. The objective of financial investing is to earn the largest possible profit or return on investment. Investing always involves a certain amount of risk, ie, there is a chance that an investment will yield not only profit but also loss. Thus investing aims at profit maximization and risk minimization.

Stock market research is essential to good financial and investment decision making. It will be able to determine the market price and trading volume for the stock, high and low price for the stock over different periods and the earnings for the company. To ascertain the right choice of a security or portfolio to an investor, it depends on the level of risk that the stock carries. An estimation of the risk-return profile of a security or portfolio is an important aspect in investment management. The stock market research will allow one to assess the possible risk of a stock against the possible rewards the stock may offer. The present study in this context is relevant in explaining the parity between risk and return in the Indian equity market. It will definitely help the stakeholders to take appropriate decision regarding the time of investment, horizon of investment, quantum of investment and even portfolio selection.

II. STATEMENT OF THE PROBLEM

The aim of investors' is getting investment opportunities with minimum risk and maximum returns. Risk and returns are important variables that investors are looking for, at the time of investment decision making. Naturally rational investors would expect a high return for bearing high risk. If there is no tradeoff between risk and return, there is no need of considering about the risk. The rate of return on equities should commensurate with its riskiness. Estimating the required return on investment to be made in the stock market is a challenging job before an ordinary investor.

Different market models and techniques are being used for taking suitable investment decisions. The past behavior of the price of a security and the share price index play a very important role in security analysis. In fact, investors' perception of variability of ex-ante return contributes to their decision to buy or hold or to sell a security. A number of studies relating to the efficacy of the stock market have been conducted by the researchers. An enquiry into the various facets of risk-return relationship on equity shares in India is relatively less explored area. Therefore, the present attempt is to make empirically to gauge the relation between various risk variables on the average rate of return on equities in India. In this regard, the study tries to establish the possible risk-return relation in Indian capital market by analysing the influence of risk variables on security return. In addition this study also analyses the tendency of beta values in measuring the return.

III. REVIEW OF LITERATURE

Suresh G Lalwani (1999) emphasized the need for risk management in the securities market with particular emphasis on the price risk. He commented that the securities market is a 'vicious animal' and there is more than a fair chance that far from improving, the situation could deteriorate.

Rajagopala Nair and Elsamma Joseph (2000) revealed the various risks experienced by investors in corporate securities and the measures adopted for reducing risks. They opined that calculated risk might reduce the intensity of loss of investing in corporate securities. As per their study, many investors are holding shares of those companies that are non-existent at present. They opined that investors may accept risks inherent in equity, but they may not be willing to reconcile to the risk of fraud. Promoters should not be allowed to loot the genuine investors by their fraudulent acts.

Akash Josh (2000) reviewed the utility of derivatives in reducing risks. He opined that derivatives allow an investor to hedge or reduce risks. But they tend to confound investors due to their esoteric nature. The leverage that the derivatives offer to any trader, investor or speculator is tremendous. By the use of derivatives the volatility of the market also gets

neutralized. He concluded the article by stating that while the discerning one stands to gain from it, a person who fails to read it right could land up burning his fingers.

Salman (2002) provides empirical evidence to support the positive and linear relationship between risk and return. While studying the Istanbul Stock Exchange, he finds that the CAPM's concept is valid and he believes that both risk and return are integrated in the information provided to the market. Similarly, a positive and significant association between risk and return in the Jordanian Securities Market.

Sangeetha and Dheeraj (2007) studied the risk return relation using market and accounting based information and found that risk computed on the basis of accounting information was not significantly captured by the market but financial risk had significant influence.

Madhu and Tamimi (2010) in their study revealed that CAPM held good in Indian stock market in explaining the systematic risk and establishing the tradeoff between risk and return. In order to establish the positive risk-return relationship between equity returns and different distributional and financial risk variables.

IV. OBJECTIVES OF THE STUDY

- 1) To entrap IT sector stocks, the level of expected return and risk .
- 2) To Test the Variability between Variables, Such as variance of returns co-relations standard deviation.

V. METHODOLOGY

As the main object of the study is to test the relation between risk and return on equity shares in India, the period covered is from January 2015 to December 2015 and the sample shares were randomly selected from amongst 5 equity shares included in the NSE 500 index.

The variables under consideration for the risk-return study are limited to only the distributional and financial risk variables. The distributional risk variables under observation are the variance of the return.

Analysis and interpretation

company	Open share price (1-1-2015)	Closing share price (31-12-2015)	Return	Expected Return 10%	Rate of return
Infosys	984.48	1015.4	120.92	98.45	12.28%
Wipro	552.55	559.9	7.35	55.25	1.33%
TCS	2547.25	2436.85	-110.4	254.72	-4.33%

oracle Fin	3358	3732.6	374.6	335.80	11.15%
HCL Tech	1599	855.1	-743	159.90	-46.53%

The above table expresses that Infosys company shares calculated 12.28% high rate of return among the share values. Oracle Fin company share are valued at 11.15% of the rate of return. Wipro shares are value at 1.33%. Other companies share value are having negative rate of return.

company	Open share price (1-1-2015)	Closing share price (31-12-2015)	Return Ri	Expected Return 10%	Deviations (Ri - R̄)
Infosys	984.48	1015.4	120.92	98.45	22.47
Wipro	552.55	559.9	7.35	55.25	-47.90
TCS	2547.25	2436.85	-110.4	254.72	-365.12
oracle Fin	3358	3732.6	374.6	335.80	38.80
HCL Tech	1599	855.1	-743	159.90	-902.90

The above table reveals that Infosys share value has deviations from expected return of 22.47. the oracle Fin company share has deviations from expected return 38.80. these companies have positive deviations, because it give more than the share holders expected. But other companies are having negative deviations from expected return. Negative return gives losses from investments.

company	Open share price (1-1-2015)	Closing share price (31-12-2015)	Return Ri	Mean	Standard Deviation
Infosys	984.48	1015.4	120.92	1044.94	85.5033520
Wipro	552.55	559.9	7.35	556.22	5.1972348
TCS	2547.25	2436.85	-110.4	2492.05	78.06459
oracle Fin	3358	3732.6	374.6	3545.30	264.8822
HCL Tech	1599	855.1	-743	1227.05	526.0167

The above table reveals that standard deviations from investment of the IT companies. Infosys and oracle Fin gives more positive standard deviations. Other companies have negative and high level of deviations.

to in understanding the risk involved and the return generated from equity shares.

- The risk-return analysis can be used as a stable platform by the investors in establishing the tradeoff between portfolio risk and return.

VI. SUGGESTIONS

- From the analysis the researcher suggest that investors must take decisions before investing share. Infosys and oracle Fin companies having good and high growth rate. So that they invest both companies.
- Wipro company shares give profit in short term investment, so the investors who are interested in short investment prefer wipro company.
- The regular income-seeker-investors can use the beta values in fixing and formulating portfolios.
- It is recommended that a proper estimation and analysis of beta can be reliably taken recourse

VII.CONCLUSION

The analysis of testing the relationship between risk and return in the Indian stock market reveals that of all the different risk variables considered in the study, the distributional risk variables, variance, skewness and kurtosis of the return distribution, confirm the working of risk-return trade-off in the Indian context. Also, a positive association was exhibited between the security-market return correlation and the average rate of return during the period of study. It also exposes the relation between systematic risk and rate of return on equities in India. The presence of randomness of the return series of both monthly market and monthly security returns in India has proved that the Indian stock market is weakly efficient. It is noteworthy to express that the Indian

capital market exhibits a positive risk-return relationship.

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