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Portfolio management - FIN 438

Submitted By

Name : Most. Anny Mala

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Submitted to

MD. Edrich Molla Jewel

Lecturer

B.B.A. Department

Answer to the question no-1

Define risk and return there are given below:- Risk and return in financial management is the risk associated with a certain investment and its returns. usually, high risk investments yield better financial of returns and low-risk investments yield lower returns. That is the risk of a particular investment is directly related to the returns earned from it. The risk and return analysis aim to help investors Hence, investors use many methods to analyze and evaluate the market, industry and company. Diversification of the portfolio i.e. choosing an optimal mix of different investment options, can reduce the risk and amplify returns.

The categories of risk:-

(i) Business risk:- Business risks can occur due to the unavailability of a purchase order, contracts in the initial stage of a particular project, delay in the attainment of inputs from clients and customers etc.

(ii) Supplier risk:- supplier risks take place in a scenario where there is third-party supplier interference in the development of a particular project owing to his associa-

tion in the same.

(iii) Resource risk :- Resource risk occurs due to improper management of a company's resources such as its staff, budget etc.

(iv) Quality and Process risk :- quality and process risk occurs due to improper of application customizing a process that is not well trained and as a result of which the outcome of a process gets compromised

(v) Project Planning :- Project planning risks are such risks that arise out of lack of proper planning concerning a project. This lack of project planning can cost the project to sink and fail to meet the expectations of the clients as well.

(vi) Project organization :- Project organization is another risk associated with the improper organization of a particular project. This lack of project to sink and fail to meet the expectations of the clients as well.

(vii) Technical environment risk :- Technical environment risk can be regarded as the risk concerning the environment in which both the customers and the clients operate. The risk can take place due to the testing environment, regular fluctuations in [illegible] etc.

Answer to the question no-2

Evaluate the Concept of Portfolio diversification there are given below:- Diversification is the Practice of spreading your investments around so that your exposure to any one type of asset is limited. The practice is designed to help reduce the volatility of your Portfolio over time. one of the key to successful investing is learning how to the balance your comfort level with risk against your time horizon. invest your retirement nest agg too conservatively at a young age, and you run a twofold risk.

(i) That the growth rate of your investments won't keep pace with inflation.

(ii) your investments may not grow to an the amount you need to retire with.

Conversely, if you invest too aggressively to when you're older, you could leave your savings exposed to market volatility, which could erode the value of your assets at an age when you have fewer opportunities to recoup your losses.

One way to balance risk and reward in your investment portfolio is to diversify your assets This strategy has many different ways of combining assets, but at it's root is the simple idea of spreading your Portfolio across several asset classes. Remember, diversification does not ensure a Profit or guarantee against loss.

There are given five type of diversify Portfolio:-

(i) Spread the wealth:- Equities can be wonderful, but don't put all of yours money in one stock or one sector. Consider creating your own virtual mutual fund by investing in a handful of companies you know, trust, and even use in your day-to-day life.

(ii) Bond Funds:- You may want to consider adding index funds or fixed-income funds to the mix. investing in securities that track various indexes makes a wonderful long-term diversify investment for your Portfolio.

(iii) Keep Building your Portfolio:- Add to your investments on a regular basis. if you have \$10,000 to invest, use dollar cost averaging. This approach is used to help smooth out the peaks and valleys created by market to volatility.

(iv) Know when to get out:- Buying and holding and dollar-cost averaging are sound strategies But just because you have your investments on autopilot doesn't mean you should ignore the forces at work

(v) Keep a watchful eye on commissions: if you are not the trading type, understand what you are getting for the fees you are paying. Some firms charge a monthly fee while others charge transactional fees These can definitely add up and chip away at your bottom line.

Answer to the question no- 3

Different types of financial instruments there are given below:-

(i) Growth investments :- These are more suitable for long term investors that are willing and able to withstand market ups and downs.

(ii) Shares :- Shares are considered a growth investment as they can help grow the value of your original investment over the medium to long term. of course, the value of shares may also fall below the price you pay for them. also known as equities, shares have historically delivered higher returns than other assets, shares are considered one of the riskiest types of financial instrument.

(iii) Cash instruments :- Instruments whose value is determined directly by the market They can be securities, which are readily transferable, and instruments such as loans and deposits, where both borrows and lender have to agree on a transfer.

(iv) Derivative instruments :- Instruments which derive their value from the value and the characteristics of one or more underlining entities such as an asset, index, or interest rate. They can be exchange-traded derivati and over the counter derivatives. Some of the more common derivatives include to

forwards, futures options, swaps, and variations of these such as synthetic collateralized debt obligations and credit default swaps.

Short and long term financial assets there are given below:- The primary difference between long term and short term financial is in the length of time the debt obligation remains outstanding.

Short term financial assets :- Short term financial with a time duration of up to one year is used to help corporations to increase inventory orders, payrolls, and daily supplies. Short-term financing can be done using the following financial instruments-

(i) Commercial Paper :- Commercial Paper is an unsecured promissory note with a pre-noted maturity time of 1 to 364 days in the global money market.

Long term financial assets :- Long term is financial assets is usually needed for acquiring new equipment, R and D cash flow enhancements, and company expansion. Some of the major methods for long-term financial are discussed below:-

(i) Equity finance :- Equity financing includes preferred stocks and common stocks. This method is less risky in cash flow commitments

(ii) [illegible]

special kind of bond issued by any corporation to collect money effectively in an aim to expand its business.

Answer to the question no-4

If may are newly appointed financial manager and I would set some top tips use to control my financial firm there are given below:-

(i) Have a clear business plan :- A business plan will establish where I and I want to get to over the next few years. it should detail how you will finance your business and its activities, what money you will need and where it will come from see write a business plan: step by step.

(ii) monitor my financial position :- I should regulary monitor the progress of my business. on a daily basis, I should know how much money I have in the bank. how many sales I making and our stock levels. I should also review my position against the targets set in my business plan on a monthly basis se cashflow management.

(iii) Ensure costomer pay my on time :- Businesses can run into major problems because of late customer payments. To reduce the risk of late or non payment. I should make my credit terms and conditions obvious

from the outset. I should also quickly issue invoices that are clear and accurate, using a computerised credit management system will help to keep track of customers accounts read ensure customers pay you on time.

(iv) Know my day to day costs :- Even the most profitable of companies can face difficulties if there isn't enough cash to cover day-to-day costs such as rent and wages. I should be aware of the minimum my business needs to survive and ensure I do not go below this - see how to measure cash in your business.

(v) keep up-to-date accounting records :- If my accounts are not kept up-to-date, I could risk losing money by failing to keep up with late customer payments or not realising when I keeping system will help I take expenses, debts and creditors, apply for the additional funding see financial and management accounts.

(vi) Control stock :- Efficient stock control ensures I have the right amount of the stock available at the right time so that my capital is not tied up unnecessarily. I should put system in place to keep track of stock levels - see business mistake poor stock control.

(vii) Get the right funding :- It is essential that I choose the right type of finance for my business - each type of finance is designed to meet different needs. Smaller businesses usually rely more on business overdrafts and personal funding this might not be the best kind of my company - read business funding for my company - road business financial options - an overview.

(viii) Tackle Problems when they arise :- It is always very stressful facing financial problems as a business, but there is help and advice available to help my tackle them before it gets too much to handle so seek professional advise as soon as the possible. There are also some initial steps I can take to minimise the impact such as tacking priority debts first and assessing how I can improve my cashflow management - see help and advice.

So I would set financial control for my firm all of tips.