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RISK & RETURN ANALYSIS OF SELECTED EQUITY SHARES

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Abstract

The study examines the relationship between risk and return in equity investments, which are important for long-term wealth creation but involve uncertainty due to market fluctuations. It is based on historical data of selected companies and uses tools like average return, standard deviation, variance, beta, and correlation to measure performance and risk levels. The research compares individual shares with market benchmarks to assess efficiency and classifies them into high, moderate, and low-risk categories. It also evaluates whether higher risk leads to higher returns and analyzes the stability of returns during market changes. The study highlights the importance of diversification in reducing overall portfolio risk. Findings reveal that although risk and return are generally positively related, the relationship is not always consistent. Some stocks offer stable returns with low risk, while others provide higher returns with greater volatility. Investors should consider risk, stability, and goals before investing.

Keywords: *Risk, Return, Equity Shares, Volatility, Diversification*

Introduction

Investment is an essential component of financial planning and wealth creation in modern economies. Individuals, institutions, and governments allocate funds across various financial instruments with the objective of preserving capital, generating income, and achieving capital appreciation. Among the different investment avenues, equity shares represent one of the most significant and dynamic options. Equity investment provides ownership in a company and offers higher return potential compared to traditional instruments such as fixed deposits and bonds. However, these returns are accompanied by higher levels of risk, making it necessary to understand the relationship between risk and return for effective decision-making.

The financial market operates on the fundamental principle that investors expect compensation for bearing risk, known as the risk-return tradeoff. Generally, low-risk investments yield lower returns, while high-risk investments offer the possibility of higher returns. Equity shares are categorized as high-risk, high-return instruments because their prices fluctuate due to economic conditions, company performance, market sentiment, government policies, and global factors. Therefore, investors must carefully evaluate the risk before investing in equity shares.

Risk in equity investment refers to the uncertainty associated with expected returns. It indicates the possibility that actual returns may differ from expected returns. Risk can be classified into systematic and unsystematic risk. Systematic risk arises from market-wide factors such as inflation, interest rate changes, recession, and political instability, and it cannot be eliminated through diversification. Unsystematic risk, on the other hand, is company-specific, such as management inefficiency or financial mismanagement, and can be reduced by diversifying investments across different securities.

Return refers to the gain or loss earned on an investment over a specific period. In equity shares, returns are generated through dividends and capital appreciation. Investors analyze both historical and expected returns to evaluate investment opportunities. The main objective is not only to maximize returns but to achieve the best possible return for a given level of risk.

Various financial tools such as mean return, standard deviation, variance, beta, and correlation are used to measure risk and evaluate performance. Standard deviation indicates the volatility of returns, while beta measures the sensitivity of a stock to market movements. These tools help investors compare securities and make informed decisions.

Modern portfolio theory, introduced by Harry Markowitz, emphasizes diversification as a method to reduce risk. The Capital Asset Pricing Model (CAPM) further explains the relationship between expected return and systematic risk, suggesting that investors are compensated only for non-diversifiable risk. Thus, investment decisions should be based on analysis rather than speculation.

The Indian stock market, represented by the Bombay Stock Exchange and National Stock Exchange, plays a vital role in economic development. It mobilizes savings and channels them into productive investments. Despite significant growth due to liberalization and technological advancement, the market remains highly volatile, increasing the importance of risk analysis.

Significance of risk and return analysis

The purpose of conducting risk and return analysis of selected equity shares is to evaluate their performance and suitability for investment. By analysing historical price movements and

calculating risk indicators, investors can identify shares that offer stable growth and those with high volatility. This helps in making rational and informed investment decisions while avoiding emotional or speculative behavior.

The study also contributes to financial literacy by helping investors understand how market fluctuations affect investment value. Many investors enter the stock market expecting quick profits without fully understanding the risks involved. Risk and return analysis educates them about diversification, long-term investment strategies, and scientific evaluation of securities.

Investment decisions are influenced by both internal and external factors. Internal factors include company fundamentals such as earnings per share, price-earnings ratio, profitability, and management efficiency. External factors include macroeconomic variables like inflation, interest rates, GDP growth, government policies, and global economic conditions. Due to these influences, equity share prices are highly sensitive, making risk analysis essential.

Historical data plays a crucial role in estimating future returns. It helps identify patterns of volatility and stability. Established companies generally show lower volatility, while newer companies may offer higher growth potential with increased risk. Therefore, investors must balance safety and profitability based on their risk tolerance.

Risk tolerance varies among investors. Conservative investors prefer stable and low-risk returns, while aggressive investors seek higher returns despite greater uncertainty. Risk and return analysis helps classify stocks into defensive, growth, cyclical, and speculative categories, enabling investors to choose according to their preferences.

Diversification is another key concept that helps reduce overall risk by spreading investments across sectors and industries. For example, investing in multiple sectors such as banking, IT, and pharmaceuticals minimizes the impact of sector-specific risks.

Research Methodology

The research methodology focuses on analyzing risk and return of selected **equity shares using tools like mean, standard deviation, variance, and beta**. It measures returns through price changes and dividends, examines the risk–return relationship, and compares share performance with market indices like **the Nifty 50 and Sensex**. The study also classifies shares based on risk levels and identifies efficient investments using risk-adjusted measures.

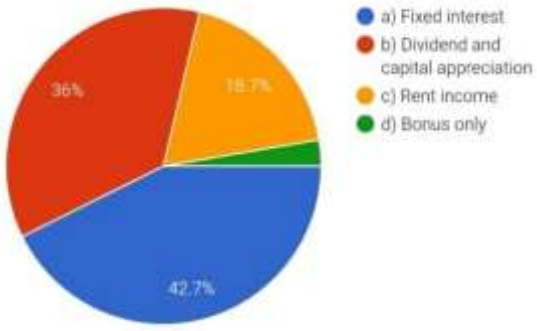
The scope of the study is limited to selected companies listed on the **National Stock Exchange and Bombay Stock Exchange over a specific time period**. It uses secondary data such as historical prices and company reports, focusing only on equity shares. Risk is measured using statistical techniques, and diversification benefits are also analyzed.

The study is important due to increasing participation of investors who often lack proper knowledge and rely on speculation. It helps **investors understand risk, make informed decisions, and build balanced portfolios**. Overall, it promotes financial literacy, reduces speculative behavior, and supports long-term wealth creation.

Results and Discussion

Awareness of Financial Concepts

The first set of responses shows that most respondents are familiar with basic financial concepts such as dividend-based models and risk definitions. A significant portion correctly understands risk as variability in returns, while many also recognize models like CAPM. However, some respondents still confuse risk with guaranteed profit or fixed income, indicating partial awareness. Overall, investors are more comfortable with traditional and simple financial concepts than with advanced theoretical models.

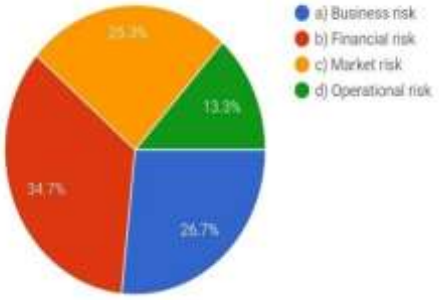


The pie chart shows respondents' awareness of different financial models used to value securities and estimate returns. The largest portion, 36%, is associated with the Dividend Discount Model, indicating that most respondents are more familiar with valuation based on future dividend payments. CAPM (Capital Asset Pricing Model) accounts for 33.3%, reflecting a strong understanding of risk–return relationship using market risk (beta). A smaller group, 17.3%, recognizes the Gordon Growth Model, which is a specific form of dividend valuation assuming constant growth. The least known model is the Arbitrage Model at 13.3%, suggesting limited awareness of more advanced pricing techniques. Overall, the graph indicates that respondents are more comfortable with traditional dividend-based valuation methods than with complex theoretical pricing models.

Understanding of Risk Types and Measurement

The second diagram highlights respondents' knowledge about different types of risk and measurement tools. Most investors identify market-related risk and understand the importance of beta in measuring volatility. Diversification is widely accepted as the best method to reduce unsystematic risk. However, misconceptions still exist, as some respondents incorrectly

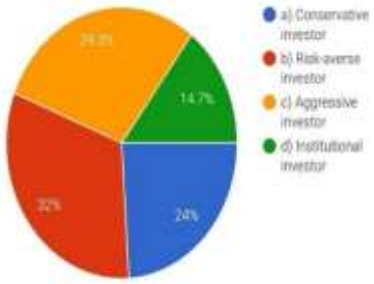
interpret beta values and risk categories. This indicates moderate understanding but a need for deeper financial knowledge.



The pie chart shows different types of investment risks perceived by respondents. Financial risk (34.7%) is the highest, indicating major concern about company financial stability. Business risk (26.7%) and market risk (25.3%) also have significant importance among investors. Operational risk (13.3%) is the least considered, showing lower focus on internal management issues.

Investment Decisions and Market Awareness

The fourth diagram explains factors influencing investment decisions such as diversification, market conditions, and return calculations. Most respondents prefer diversified portfolios and consider market price and dividends important for evaluating returns. However, confusion exists regarding concepts like capital appreciation, standard deviation, and market risk impact. Overall, investors focus more on practical decision factors but lack complete clarity on technical aspects.



This pie chart represents the distribution of different types of investors based on their investment behavior. Risk-averse investors form the largest segment at 32%, indicating that most investors prefer safety and minimal risk while making investment decisions. This is followed by aggressive investors, who account for 29.3%, showing a substantial proportion of investors willing to take higher risks in expectation of higher returns. Conservative investors make up 24%, reflecting a preference for stable and secure investments with moderate returns. Institutional investors constitute the smallest share at 14.7%, suggesting that individual investors dominate the investment landscape compared to large institutions. Overall, the graph highlights a higher inclination toward cautious and moderate risk-taking behavior among investors.

Conclusion

The study concludes that equity investment involves a significant tradeoff between risk and return, where higher returns are generally associated with greater uncertainty and price

volatility. The analysis of selected equity shares confirms the fundamental financial principle that investors must be willing to bear higher risk to achieve higher potential rewards. However, the relationship between risk and return is not always perfectly proportional, as some securities provide stable and consistent returns with lower volatility, while others generate higher returns accompanied by substantial fluctuations.

Overall, the findings highlight the importance of informed, rational, and systematic investment decisions. Investors should not rely solely on expected returns but must consider risk, stability, investment objectives, and market conditions while selecting securities. The study provides practical guidance for different types of investors—conservative, moderate, and aggressive—in aligning their investment choices with their risk tolerance. Thus, a scientific approach to risk and return analysis contributes to better portfolio management, improved investment efficiency, and sustainable long-term wealth creation.

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