

Portfolio Revision

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Introduction

- Portfolio management would be an incomplete exercise without a periodic review.
- The portfolio, which is once selected, has to be continuously reviewed over a period of time and if necessary revised depending on the objectives of investor.
- Thus, portfolio revision means changing the asset allocation of a portfolio.

- However, the frequency of review depends upon the size of the portfolio, the sum involved, the kind of securities held and the time available to the investor.
- The review should include a careful examination of investment objectives, targets for portfolio performance, actual results obtained and analysis of reason for variations.
- The review should be followed by suitable and timely action.

- Some techniques of portfolio revision:-
- Investors buy stock according to their objectives and return-risk framework.
- These fluctuations may be related to economic activity or due to other factors.
- Ideally investors should buy when prices are low and sell when prices rise to levels higher than their normal fluctuations.
- The investor should decide how often the portfolio should be revised.
- If revision occurs too often, transaction and analysis costs may be high.
- The important factor to take into consideration is, thus, timing for revision of portfolio.

- **Passive Management**
- It is a process of holding a well diversified portfolio for long term with the buy and hold approach.
- It also refers to the investor's attempt to construct a portfolio that resembles the overall market returns.
- For e.g.- If Reliance Industry's stock constitutes 5% of the index, the fund also invests of 5% of its money in Reliance Industry Stock.

- Active Management
- It is holding securities based on the forecast about the future.
- The portfolio managers vary their cash position or beta of the equity portion of the portfolio based on the market forecast.
- For e.g.- IT or FMCG industry stocks may be given more weights than their respective weights in the NSE-50.

The Formula Plans

- The formula plans provide the basic rules and regulations for the purchase & sale of securities.
- These predetermined rules call for specified actions when there are changes in the securities market.
- In this, the investor divide his investment funds into 2 portfolios i.e. one aggressive(portfolio consists of equity shares)& other conservative or defensive (bonds & debentures)

Basic Rules of Formula Revision

1. Formula plans require the investor to divide his investment funds in two portfolios i.e. aggressive & Conservative (defensive)
2. The volatility of aggressive portfolio must be greater than that of conservative portfolio, the larger the difference between the two, the greater the profits the formula plan can yield.
3. The conservative (defensive) portfolio must include high- grade bonds having a high degree of safety and stability of the returns.

4. The conservative portfolio tends to decline during periods of prosperity, owing to falling interest rates. While the stock prices are rising, therefore, the aggressive portfolio also rises.
5. The basic premise of formula plans is that stock and bond prices of the portfolios move in opposite direction. If they move in same direction then this phenomenon certainly impairs profitability of the formula plans.
6. The formula plans do not deal with the selection of stocks or bonds

Different types of Formula Plans are-

- Rupee Cost Averaging
- Constant Rupee Plan
- Constant Ratio Plan
- Variable Ratio Plan

Thank you !