

Beta is the only factor that leads to variation in return. In this case, portfolio A with the highest beta gives the highest return. In normal condition, portfolio B gives the lowest return.

### Case: Retirement Planning

Mr Sekhar is going to retire shortly. He wants to invest his gratuity and provident fund money in the stock market. He is not a member of any sickness benefit scheme. He is averse to company-specific risks. It is assumed that the short-term treasury bill yields 6% interest. At the same time, A+ grade CRISIL rated three-year bonds give 12.5% return. The beta and  $R^2$  values for some common stocks are as follows for the period 1 July 2011 to 30 June 2012.

Company	Beta	$R^2$
HBL	1.30	0.51
T&L	1.40	0.63
COEL	1.47	0.47
BIS	1.41	0.57

He wants to choose a portfolio of two stocks and a risk-free asset. Frame him the investment objectives and build a portfolio for him.