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"CONSTRUCTION OF OPTIMAL PORTFOLIO OF BANKING STOCKS" - A DIVERSIFICATION STRATEGY

SAUGAT DAS[1] & ANKIT AGARWAL[2]

[1]Assistant Professor, Royal School of Business, Guwahati, Assam, India

[2]MBA Student, Royal School of Business, Guwahati, Assam, India

ABSTRACT

Indian stock market is experiencing a continuous growth year over year. It acts as a performance indicator of the economy. The Indian stock market is serving as an attractive investment avenue for the investors. Majority of the Indian middle-class citizens are still not investing in the stock market due to high level of risk associated with it. Indian risk-averse investors want to earn maximum returns with the minimum possible risk. As the banking sector contributes significantly to the growth and development of Indian economy, the Bank Nifty as an index has gained more importance among the investing community. Thus, this research paper focuses on the 12 banking stocks of the Bank Nifty index and concentrates on the construction of an optimal portfolio of banking stocks using Sharpe Index model.

The twelve companies were ranked on the basis of excess return to beta ratio. The cut off point was calculated for each stock and the highest value of cut off point was taken into calculations in determining the percentage of money to be invested in each banking stock. The outcome of this study will guide the investors in their decision of selecting best banking stocks from the Bank Nifty Index.

KEYWORDS: Optimal Portfolio, Sharpe Index Model, Beta, Cut-Off Rate, Bank Nifty