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"A STUDY OF PORTFOLIO DIVERSIFICATION AND ITS IMPACT ON INVESTMENT RISK"

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ABSTRACT

Speculation is an vital budgetary movement through which speculators point to gain returns whereas overseeing related dangers. In the stock advertise, chance and return are closely related, making portfolio administration an fundamental viewpoint of venture decision-making. The show ponder titled "A Study of Portfolio Diversification and Its Impact on Investment Risk" looks at the part of enhancement in lessening venture chance and making strides portfolio performance.

The primary objective of the think about is to analyze the affect of portfolio broadening on venture chance and to get it its significance in viable portfolio administration. The consider is based on a graphic and survey-based inquire about plan. Essential information was collected from 100 financial specialists through a organized survey, whereas auxiliary information was accumulated from books, diaries, and inquire about papers.

The think about applies Chi-square examination to test the relationship between portfolio enhancement and speculation chance. The calculated Chi-square esteem was found to be more prominent than the table esteem, driving to dismissal of the invalid theory and acknowledgment of the elective theory. The discoveries show that portfolio expansion has a critical affect on lessening venture risk.

KEYWORDS: Investment, Diversified Portfolio, Risk, Return.

INTRODUCTION

Investment is a essential action in the money related framework through which people and educate distribute reserves with the desire of gaining future returns. The stock showcase gives a wide run of speculation openings, especially through value securities, but it too uncovered financial specialists to different shapes of hazard emerging from advertise instability, financial conditions, and company-specific components. Overseeing this hazard whereas accomplishing sensible returns is one of the essential targets of financial specialists. As a result, portfolio administration has risen as an vital zone in back, centering on the determination and combination of diverse securities to meet venture objectives efficiently.

The concept of portfolio enhancement has its roots in Cutting edge Portfolio Hypothesis, created by Harry Markowitz in the early 1950s. Markowitz emphasized that chance ought to be seen at the portfolio level or maybe than at the person security level. Agreeing to this hypothesis, speculators can decrease in general portfolio hazard by combining resources that are not impeccably connected with each other. Expansion permits misfortunes in a few securities to be counterbalanced by picks up in others, subsequently stabilizing portfolio execution. Over time, this concept has ended up a foundation of venture administration and is broadly embraced by person speculators, common reserves, and regulation portfolio managers.

With the development and expanded cooperation in the stock showcase, speculators are uncovered to higher levels of instability and change in returns. Value speculations, whereas advertising the potential for higher returns, are especially touchy to advertise developments. In such an environment, portfolio expansion plays a significant part in overseeing speculation chance. By spreading ventures over diverse securities, divisions, or businesses, financial specialists endeavor to minimize unsystematic chance and accomplish more reliable returns.

LITERATURE REVIEW

The literature on portfolio diversification highlights its critical role in managing investment risk while optimizing returns across capital markets. Recent studies emphasize both the advantages and limitations of diversification strategies. For instance, Munizu, M., Mulyati, S., and Zikirullaeva, N. (2023) examined the influence of portfolio diversification on risk and return and found that spreading investments across multiple securities significantly reduces overall portfolio risk while positively impacting returns. Similarly, Ni Kadek Wahyuni Merta Sari, Noni Antika Khairunnisah, and Muhammad Mahfuz (2022) focused on the inclusion of green bonds in diversified portfolios and concluded that low-volatility assets contribute to risk reduction without compromising expected returns, reinforcing the importance of asset-class diversification.

Further, Khurshid M. Kiani (2021) analyzed diversification using stocks listed on the BSE along with international indices and applied Value at Risk (VaR) as a risk measurement tool. The findings indicated that both domestic and international diversification help in minimizing expected losses, with correlation analysis playing a key role in portfolio construction. In contrast, Marc Busse, Michel Dacorogna, and Marie Kratz (2020) highlighted the limitations of diversification by introducing the concept of systemic risk. Their probabilistic model demonstrated that market-wide shocks can significantly reduce diversification benefits, and they argued that Tail Value at Risk (TVaR) is more effective than VaR in capturing such extreme risks. Earlier, Lekovic, Miljan (2019) provided a theoretical foundation by explaining diversification as a fundamental strategy rooted in modern portfolio theory. The study emphasized the importance of correlation among asset returns and suggested that efficient diversification, rather than naive diversification, is essential for achieving optimal risk-return trade-offs.

Overall, the reviewed literature consistently supports diversification as a vital investment strategy for risk reduction and return optimization, while also acknowledging that its effectiveness may be constrained by systemic factors and market conditions.

OBJECTIVES OF THE STUDY

1. To study the concept of portfolio diversification in the stock market.
2. To analyse the impact of portfolio diversification on investment risk.
3. To understand the relationship between risk and return in diversified portfolios.
4. To examine the role of diversification in effective portfolio management.

DATA ANALYSIS AND INTERPRETATION

Observed Frequency Table (From Survey Data):

Diversification Practice	No Loss Experienced	Loss Experienced	Total
Do Not Diversify	16	10	26
Diversify	18	56	74
Total	34	66	100

Interpretation:

The watched recurrence table appears the real reactions collected from 100 financial specialists with respect to expansion and misfortune encounter. It presents the contrast between speculators who differentiate and those who do not broaden. The table shows that enhancement hones impact venture hazard. In this way, it appears a relationship between portfolio broadening and chance presentation.

Expected Frequency Table:

Formula used:

E= Row Total×Column Total/ Grand Total

Diversification Practice	No Loss (E)	Loss (E)
Do Not Diversify	8.84	17.16
Diversify	25.16	48.84

Interpretation:

The anticipated recurrence table presents the hypothetical frequencies calculated beneath the suspicion that there is no relationship between portfolio expansion and speculation chance. These values are determined utilizing the Chi-square equation based on push sums and column aggregates. The anticipated frequencies serve as a benchmark to compare with watched frequencies and offer assistance decide whether any noteworthy affiliation exists between the factors beneath ponder.

Chi-Square Calculation Table:

O	**E**	**$(O–E)^2$ / E**
16	8.84	5.80
10	17.16	2.99
18	25.16	2.04
56	48.84	1.05
Total χ^2		**11.87**

Interpretation:

The Chi-square test was connected to test the relationship between portfolio enhancement and venture chance. The calculated Chi-square esteem of 11.87 is more prominent than the table esteem of 3.841 at 5% centrality level with 1 degree of flexibility. Hence, the invalid theory is rejected and the elective theory is acknowledged. This demonstrates that portfolio expansion has a critical affect on venture hazard, and enhancement plays an imperative part in decreasing chance presentation among speculators.

Degree of Freedom:

$df=(r-1)(c-1)=(2-1)(2-1)=1$

The Chi-Square test was applied to examine the relationship between portfolio diversification and investment risk using primary data collected from 100 respondents. The calculated Chi-Square value (11.87) is greater than the table value (3.841) at 1 degree of freedom and 5% level of significance. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted.

This indicates that portfolio diversification has a significant impact on investment risk. The findings suggest that investors who do not diversify their portfolios are more likely to experience losses, whereas diversification helps in reducing risk exposure.

Research Methodology Research Design

The show ponder embraces a expressive and survey-based investigate plan to look at the affect of portfolio broadening on speculation chance among financial specialists. This plan is fitting as the consider points to portray existing speculation hones, get it speculator conduct, and analyze designs related to enhancement and hazard administration without controlling any factors. The inquire about is based on genuine reactions collected specifically from speculators, guaranteeing commonsense relevance.

A organized survey strategy is utilized to collect essential information from respondents. The survey comprises of closed-ended questions, which permits consistency in reactions and makes the information reasonable for quantitative examination. This approach makes a difference in measuring speculator conclusions, expansion hones, and hazard recognitions in a precise and objective manner.

The consider is cross-sectional in nature, as the information is collected at a single point in time from a settled gather of respondents. A test estimate of 100 financial specialists is chosen to guarantee satisfactory representation whereas keeping up possibility inside time and asset limitations.

FINDINGS OF THE STUDY

1.Significant Impact of Diversification on Investment Risk

The study found that portfolio diversification has a significant impact on reducing investment risk among investors.

2. Acceptance of Alternative Hypothesis

Chi-square analysis proved a significant relationship between diversification and investment risk, leading to acceptance of the alternative hypothesis.

3. Reduction in Unsystematic Risk

The findings show that diversification helps investors reduce unsystematic or company-specific risk.

4. Improvement in Portfolio Stability

A diversified portfolio contributes to more stable returns and a better balance between risk and return.

5. Effective Portfolio Management Strategy

The study establishes diversification as an important strategy for sound investment decisions and efficient portfolio management.

CONCLUSION

This research examining the role of financial planning in long-term wealth creation reveals that individuals possess a foundational level of financial awareness, particularly in relation to budgeting and saving practices. A majority of respondents demonstrate the ability to manage their income systematically, which reflects a positive attitude toward financial discipline and control over expenses. These basic financial habits form an essential starting point for effective financial planning.

However, The research further highlights a number of limitations that hinder the achievement of long-term wealth creation. One of the key factors observations is the a clear inclination for traditional and low-risk investment avenues such as bank deposits. While these options provide safety and liquidity, they offer relatively lower returns, which might not be adequate to generate substantial wealth over time, especially in an inflationary environment.

Furthermore, The results suggest that a considerable a share of participants focus on short-term and medium-term financial goals rather than long-term investment strategies. This short-term orientation restricts the capacity to gain advantages from compounding and long-term capital appreciation, both of which are essential for wealth accumulation. The absence of diversification in investment choices further limits the possibility to optimize risk and return.

Another important insight from the study is the gap between financial awareness and financial application. Although individuals understand the importance of saving and budgeting, they often lack the knowledge, confidence, or guidance required to make wellreasoned and knowledgeable investment choices. Contributing factors include limited income, risk aversion, and inadequate financial literacy contribute to conservative financial behavior.

In conclusion, while the respondents exhibit positive financial habits at a basic level, there is a clear need to move beyond traditional practices toward a more structured and strategic approach to financial planning. Emphasis should be placed on long-term investment planning, diversification of financial portfolios, and adoption of modern financial instruments.

Enhancing financial literacy through education, awareness programs, and access to reliable financial advice can have a significant impact in transforming individual financial behavior. Overall, effective financial planning, when supported by informed decision-making and long-term vision, is capable of substantially improve wealth creation outcomes and ensure financial security for individuals over time.

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