PORTFOLIO DIVERSIFICATION

JOTHIPRAKASH.R*

*Assistant Professor,
Department of Commerce and Management Studies,
Saradha Gangadharan Arts and Science College,
Velrampet, Puducherry.

ABSTRACT

The risk averse investor constantly tries to reduce risk in terms of variability in returns. Diversification has proved an effective tool in the hands of both fund managers and investors alike. The increased interest in commodity market as an investment avenue has focused investors’ attention on commodity markets as a tool of diversification. The present study tries to explore the possibility of commodity market as a tool for investment. The study tests the risk return relationship of commodity markets with the equity markets. The results of our study showed that optimal mix of commodity and equities prove as an effective tool in reducing the variability of returns. The risk is reduced to almost half with a mix of 80:20 in equity and commodity respectively. The findings of the study can help investors and fund managers to reduce the risk in terms of variability in return without compromising the return.

KEYWORDS: Portfolio Diversification, Commodity Markets, Equity Markets.