Key terms:

**Investment**: Commitment of funds for a period usually exceeding one year in expectation of a required rate of return.

**Investment decision**: The decision to acquire, hold, or dispose asset by rational and risk-averse individuals/organizations.

**Risk** is the probability of getting return. It is measured in terms of deviation between actual return and expected return.

**Return** is the outcome of an investment.

**Beta**: sensitivity of security as per market force

**Portfolio** is group of assets/securities where investment is made.

**Marketable securities**: Financial claims, which are tradeable in organized markets at the best prices.

**Portfolio construction**: Building up a portfolio of financial assets with consideration of selectivity, timing, and diversification or raising a portfolio with rational selection criteria, at the right time, and in a way that the risk is reduced to the minimum for a given level of expected return.

**Portfolio revision**: A review of an existing portfolio in the light of changes in risk-return dimensions.

**Portfolio evaluation**: Assessing the performance of a portfolio on the basis of some aptly developed norms or yardsticks.

**Real assets**: Physical assets held to perform an activity with an expected income/pay off profile.

**Realized return**: The pay-off rate on an investment, which occurs after an event/fact i.e., the actual return.
**Risk-free rate of return:** The monetary rate of return obtainable on financial assets with zero probability of default on principal and periodic payments, e.g. government or gilt edged securities.

**Risk-return trade-off:** An approach to investment decision-making whereby the utility/welfare maximizing individuals acquire assets in a way that their returns are maximized for given levels of risk or risk is minimized for given level of return.

**Security analysis:** A methodology whereby forecasts of financial variables like earnings, dividends, cash flow are made for individual securities, (i.e. micro level) or for securities as a homogeneous industry group (macro-level) using either past data or a discounting approach.

**Securities market:** Organized and recognized trading centres, where financial claims are bought and sold as per established rules and procedures.

**Zero-interest bonds:** Creditorship securities on which a coupon rate is not made explicit but the compensation is provided through a discount on the purchase price or a premium on redemption.

**Derivative** is the security which derives its value from the underlying asset.

**Primary market** is the market where the issues of new securities are offered to the public.

**Bear** is the person who sells shares in the expectation of a fall in price with the intention of buying the shares at a lower price at a future date.

**Secondary market** refers to the exchange of securities that have been listed through the primary market.

**Bull** is the person who buys shares in the expectation of selling them at a higher price.

**Portfolio analysis** includes selection of securities, portfolio construction, revision of portfolio, evaluation and monitoring of the performance of the portfolio.
Convertible debt implies that the original debt instrument would be converted into another financial instrument at the time of maturity.

Money market deals mostly in financial instruments of shorter duration.

Spot market denotes the current trading price of financial instruments.

Future contract is an agreement by one participant to either buy or sell a financial instrument at a predetermined date in the future at a predetermined price.

LIBOR (London Inter-bank Offer Rate) is a popular base rate for flexi debt instruments.

Zero coupon debt does not pay regular interest, but issues a document at an offer price and repays the document with value additions that compensates for the regular income through the duration of debt.

Traditional approach of portfolio construction is based on the financial needs of the individual investors.

Modern approach is based on the risk and return analysis.

Portfolio returns are the weighted returns of all securities constituting the portfolio.

Portfolio risk is the simply weighted average risk of all securities in the portfolio and is measured by the standard deviation together with the covariance between securities.