PREFACE

The Indian capital market has been increasing tremendously during last few years. With the reforms of economy, reforms of industrial policy, reforms of public sector and reforms of financial sector, the economy has been opened up and many developments have been taking place in the Indian money market and capital market. In the study most critical year of economy 2008 is also covered so we could have exact result.

Small investors face a lot of problems in the share market, limited resources, lack of professional advice, lack of information etc. Mutual funds have come as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings which are to be invested under the guidance of a team of experts in wide variety of portfolios of corporate securities in such a way, so as to minimize risk, while ensuring safety and steady return on investment. It forms an important part of the capital market, providing the benefits of a diversified portfolio and expert fund management to a large number, particularly small investors.

A booming economy and Bull Run on stock markets in the past four years despite recession have led to an upsurge in portfolio management services (PMS). Funds managed by 150 PMS providers, registered with the stock market regulator Securities and Exchange Board of India (SEBI), are now running into thousands of crore of rupees, fund managers say.

Model testing required an in-depth study of the diversification practices being used in the world of management and business. A thorough understanding of the risk being associated with investment and the ways in which such risks can be mitigated to the best possible extent has been elaborated in this paper. To proceed on with the topic a basic understanding of risk and its diversification has been enumerated in the first chapter.

Not just that the widely assumed and practiced principle of mitigating risk and substantially increasing reward by diversifying investment in several stocks, bonds, commodities, etc has been discussed in the paper; but is diversifying can be risky has also been touched upon. This contrary
aspect has been elaborated in context to the investment technique being adopted by the world’s famous and wealthiest investor Warren Buffet; namely a new horizon of the paradox of diversification.

In order to arrive at a conclusion and verify the generally applied principle and model of modern portfolio theory and the correlation existent between the index and nifty before diversifying one’s investment, a hypothesis testing has been done.