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RESEARCH PAPER
ON
ROLE OF PORTFOLIO MANAGEMENT IN FINANCIAL LITERACY
BY

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ABSTRACT

One of the important component of portfolio management is the financial literacy of the individual investors. This paper aims at identifying the problems in portfolio management by the individual investors. The focus of this paper is on poor financial literacy as one of the important factor leading to the lack of proper portfolio management behavior. After studying the past researches and theories certain conclusions are drawn whether which are the factors that impacts the decision making process, it is identified that imparting financial literacy will lead to sound financial behavior in decision making. Further, financial education of individual investors is very important for the nation's economic growth and development.Investing in securities i.e: shares, debentures, bonds are profitable as well as risky. For this it needs a scientific knowledge as well as analytical skills to deal with risk. in these investments an investor has to take decision on the basis of both rationale and emotional perspectives. As per investors point of view investing in financial securities is one of the avenue for investing our savings but on the other side it is acknowledged to be one of the most risky avenue of investment.It is difficult to find investors investing their entire savings in a single security. Instead, they want to invest in a group of securities. Such group of securities is called portfolio. When portfolio is created risk is reduced without sacrificing returns. Portfolio management deals with the theory and practice of optimum combining securities into portfolio. An investor who understands the principles and analytical aspects of portfolio management has a better chance of success.

INTRODUCTION:

An investor considering investments in securities is faced with the problem of choosing from among a large number of securities and how to allocate his funds over this group of securities. Again the investor faced with the problem of deciding which securities is to be hold and how much to invest in each security. Basically risk and return are the two important characteristics of

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portfolio. The investor tries to choose the optimal portfolio taking into consideration the risk and return characteristics of all possible portfolios. The characteristics of individual securities as well as portfolio also change. This calls for periodic review and revision of investment portfolio of investors. An investor always invests his funds in a portfolio expecting to get good returns consistent with the risk that he has to bear. The return realized from the portfolio has to be measured and the performance of the portfolio has to be evaluated.

It is evident that creation of an investment portfolio always needs a rational investment activity. Portfolio management comprises all the processes involved in the creation and maintenance of a investment portfolio. It deals basically with the security analysis, portfolio analysis, portfolio selection, portfolio revision and portfolio evaluation. Portfolio management makes use of analytical techniques of analysis and conceptual theories regarding rationale allocation of funds. Portfolio management is a complex process which tries to make investment activity more rewarding and less risky.

Research objectives:

1. To assess the effectiveness of portfolio management education programs in improving financial literacy and investment decision-making skills.
2. To examine how portfolio management knowledge influences individuals' perception of financial risk and their risk tolerance levels.
3. To explore and educating individuals about portfolio management and fostering financial literacy.

Research Design:

1.1 Type of Research:

This study adopts a quantitative research design to quantifiably measure the relationship between financial literacy and portfolio management.

1.2 Sampling Design:

Utilize a random sampling technique to select participants from the target population. Ensure diversity in demographics to capture a comprehensive understanding of the role of portfolio management across various groups.

2. Participants:

2.1 Inclusion Criteria:

Participants should be adults aged 18 and above with varying levels of financial literacy.

2.2 Sample Size:

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Determine an appropriate sample size based on statistical power calculations and the desired level of precision.

3. Data Collection:

3.1 Survey Instrument:

Develop a structured survey questionnaire containing items related to financial literacy, portfolio management knowledge, and investment behavior.

ROLE OF PORTFOLIO MANGEMENT:

There was a time when portfolio management was an exotic term. A practice which is beyond the reach of the small investor, but the time has changed now. Portfolio management is now a common term and is widely practiced in INDIA. The theories and concepts relating to portfolio management now find there way in the front pages of the financial newspapers and magazines. In early 90‘s India embarked on a program of economic liberalization and globalization, with high participation of private players. This reform process has made the Indian industry efficient, with rapid computerization, increased market transparency, better infrastructure and customer services, closer integration and higher volume. The markets are dominated by large institutional investors with their diversified portfolios. A large number of mutual funds have come up in the market since 1987. With this development investment in securities has gained considerable momentum.

Along with the spread of the securities investment way among Indian investors have changed due to the development of the quantitative techniques. Professional portfolio management, backed by research is now being adopted by mutual funds, investment consultants, individual investors and big brokers. The Securities Exchange Board of India (SEBI) is a regulatory body in INDIA. It ensures that the stock market is free from fraud, and of course the main objective is to ensure that the investor‘s money is safe.

With the advent of computers the whole process of portfolio management has become quite easy. The computer can absorb large volumes of data, perform the computations accurately and quickly give out the results in any desired form. Moreover simulation, artificial intelligence etc provides means of testing alternative solutions. The trend towards liberalization and globalization of the economy has promoted free flow of capital across international borders.

Portfolio not only now include domestic securities but foreign too. So financial investments can‘t be reaped without proper management. Another significant development in the field of investment management is the introduction to Derivatives with the availability of Options and Futures. This has broadened the scope of investment management. Investment is no longer a simple process. It requires a scientific knowledge, a systematic approach and also professional expertise. Portfolio management is the only way through which an investor can get good returns, while minimizing risk at the same time. So portfolio management objectives can be stated as: -

- Risk minimization.
- Safeguarding capital.
- Capital Appreciation.
- Choosing optimal mix of securities.
- Keeping track on performance.

LITERATURE REVIEW

Research by Bodie and Merton (1995) emphasizes the role of portfolio diversification in risk mitigation. Financially literate individuals comprehend the importance of spreading investments across different asset classes, reducing the impact of poor-performing assets. This diversification principle is fundamental to portfolio management and aids in achieving a balance between risk and return.

A study by Hastings and Mitchell (2011) explores how financial literacy influences investment decision-making. It suggests that individuals with higher financial literacy levels are more likely to make informed investment decisions, incorporating portfolio management principles such as risk assessment, asset allocation, and portfolio construction.

Campbell (2006) discusses how portfolio management contributes to long-term wealth accumulation. Financially literate individuals, well-versed in portfolio management principles, can construct portfolios aligned with their financial goals, leading to effective wealth accumulation over time.

Poterba and Samwick (2003) focus on the role of portfolio management in risk management. Financially literate investors understand and utilize hedging strategies, such as options and futures, to manage risk effectively. This knowledge is integral to portfolio management and contributes to overall financial literacy.

Wagner, Winter, and Bruckner (2017) analyze the effectiveness of investor education programs in improving financial literacy, with a focus on portfolio management concepts. Such programs aim to enhance individuals' understanding of

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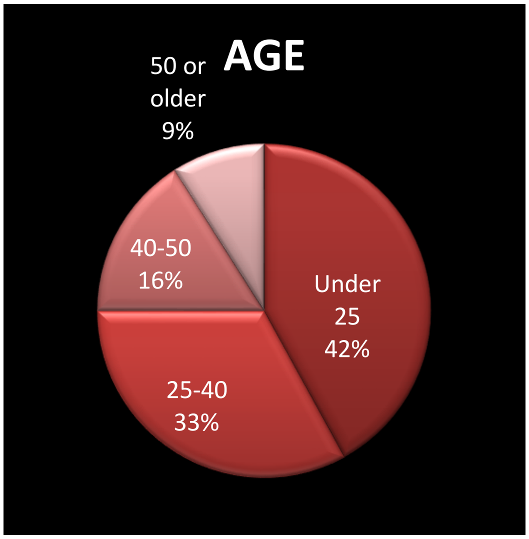
investment strategies, risk management, and the importance of a well-structured portfolio. The intersection of portfolio management and financial literacy is often highlighted in studies on retirement planning (Lusardi, 2019). Financially literate individuals, with knowledge of portfolio management, are better positioned to make strategic investment decisions aligned with their retirement goals, ensuring a more secure financial future.

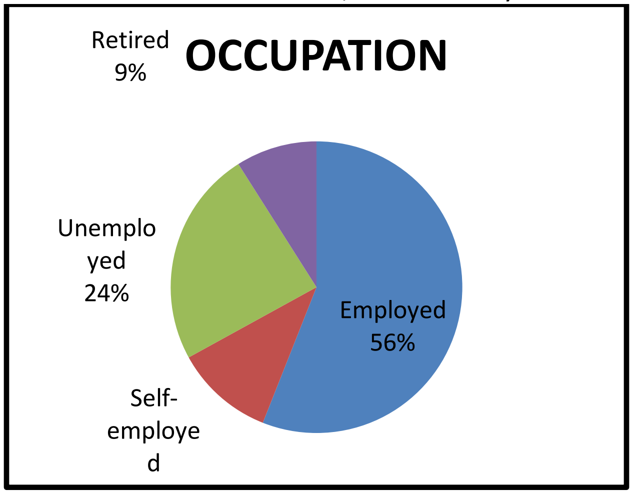
DATA ANALYSIS

1. Age:



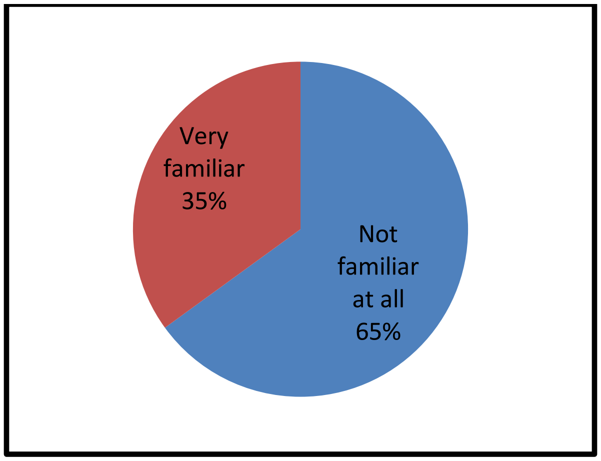
(50 RESPONDENTS)

2. Current Employment Status:



(50 RESPONDENTS)

3. How familiar are you with the concept of portfolio management?



(50 RESPONDENTS)

4. What sources do you typically consult for information before making investment decisions?

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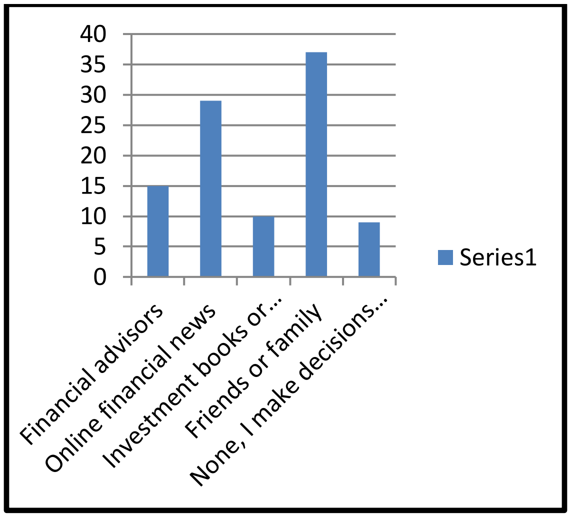

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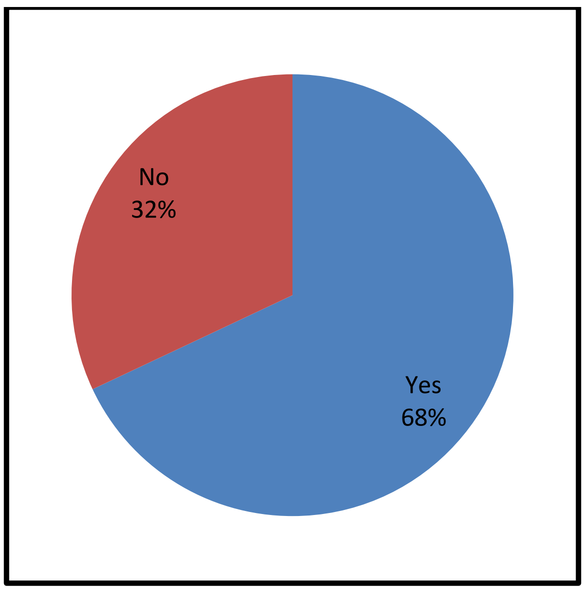
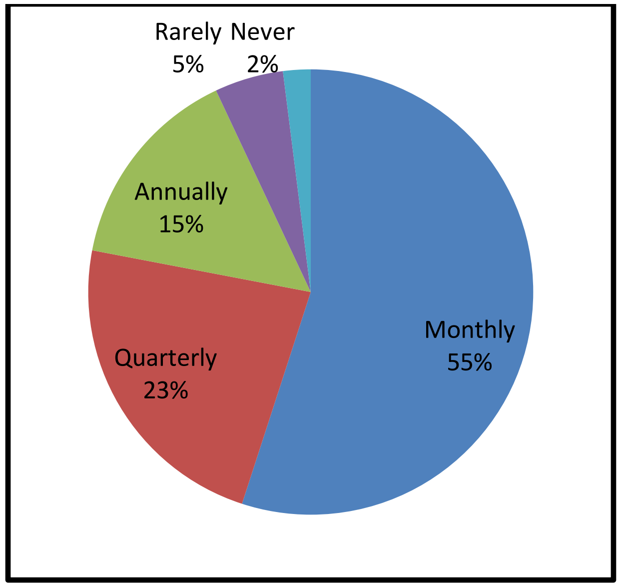
5. Have you ever used a financial advisor for portfolio management?



(50 RESPONDENTS)

6. How often do you review and adjust your investment portfolio?



(50 RESPONDENTS)

FINDINGS

Positive Correlation:

Many studies suggest a positive correlation between financial literacy and effective portfolio management. Individuals with a higher level of financial literacy tend to demonstrate a better understanding of portfolio management principles such as asset allocation, diversification, and risk management.

Improved Investment Decisions:

Financially literate individuals often make more informed and strategic investment decisions. They are likely to consider factors like risk tolerance, investment horizon, and

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market conditions, contributing to the construction of well-balanced and diversified portfolios.

Enhanced Risk Management:

Portfolio management knowledge is associated with improved risk management strategies. Financially literate investors are better equipped to assess and manage risks within their portfolios, leading to a more resilient investment approach.

Long-Term Financial Planning:

Individuals with a solid understanding of portfolio management are more likely to engage in long-term financial planning. This includes setting specific financial goals, aligning investments with those goals, and regularly reviewing and adjusting portfolios over time.

Influence on Investment Behavior:

Portfolio management knowledge influences investment behavior. Financially literate investors are more likely to stay disciplined during market fluctuations, avoid impulsive decisions, and adhere to their long-term investment strategies.

SUGGESTIONS

- Promote Financial Literacy Education:

  Encourage and support financial literacy education initiatives. Effective educational programs should cover key portfolio management concepts, providing individuals with the knowledge and skills needed for successful investment management.

- Integration into School Curricula:

  Advocate for the integration of financial literacy, including portfolio management principles, into school curricula at various educational levels. Starting financial education early can help individuals develop a solid foundation for managing their finances.

- Accessible Resources and Tools:

  Ensure that individuals have access to accessible and user-friendly resources and tools that can help them understand and apply portfolio management principles. Online courses, interactive tools, and educational materials can contribute to ongoing financial education.

- Targeted Outreach Programs:

  Implement targeted outreach programs to reach specific demographic groups that may face challenges in developing financial literacy, such as lower-income individuals or those with limited

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access to financial education resources.

- Financial Advisor Assistance:
  Encourage individuals to seek advice from qualified financial advisors. Advisors can play a crucial role in guiding clients through the complexities of portfolio management, helping them make informed decisions aligned with their financial goals.
- Use of Technology:
  Leverage technology to enhance financial literacy and portfolio management. Mobile apps, online platforms, and robo-advisors can provide interactive and engaging tools for individuals to learn about and manage their investment portfolios.
- Continuous Learning Culture:
  Promote a culture of continuous learning in which individuals understand the importance of staying informed about changes in the financial landscape and updating their knowledge of portfolio management principles accordingly.

CONCLUSION:

From the above it is concluded that Portfolio is a combination of various securities. Portfolio can be constructed with the help of Traditional approach and Modern Approach. The main objective of portfolio management is to help the investor in investing in various securities so, that risk is to be minimized and to get higher yield of return. In traditional approach the constraints, investors need for current income and constant income are analyzed. The basic objectives of portfolio are current income, constant income, preservation of capital, capital appreciation. As per the objective of portfolio whether it is a stock portfolio or bond portfolio or combination of both is to be decided. After that, equity component of the portfolio is chosen. Traditional approach takes the entire financial plan of the individual investor. In the Modern Approach Markowitz Model is used. More importance is given in this concept to Risk and Return Analysis.

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