

## Department of Management Studies

**23BBE731 – Security Analysis and Portfolio Management**  
II / III SEMESTER

### **UNIT IV : Portfolio Management**

*Topic: Portfolio Construction Process*





# Introduction to Portfolio Construction

- Portfolio construction refers to the process of selecting and combining securities to achieve specific investment goals.
- It involves balancing risk and return based on the investor's profile.
- A scientific and structured approach ensures optimal diversification and performance.





# Objectives of Portfolio Construction

- To maximize returns within acceptable risk limits.
- To ensure diversification of investments.
- To achieve liquidity and safety of funds.
- To align with investor's financial goals and time horizon.



# Steps in Portfolio Construction

- ✓ Determining Investment Objectives
- ✓ Asset Allocation Decision
- ✓ Security Selection
- ✓ Portfolio Optimization
- ✓ Performance Evaluation and Review



# Example – Portfolio Construction for an IT Professional

| Asset Type            | Investment | % Allocation |
|-----------------------|------------|--------------|
| Equity (Infosys, TCS) | ₹3,00,000  | 50%          |
| Mutual Funds          | ₹1,50,000  | 25%          |
| Bonds & FDs           | ₹1,20,000  | 20%          |
| Gold ETFs             | ₹30,000    | 5%           |
| Total                 | ₹6,00,000  | 100%         |



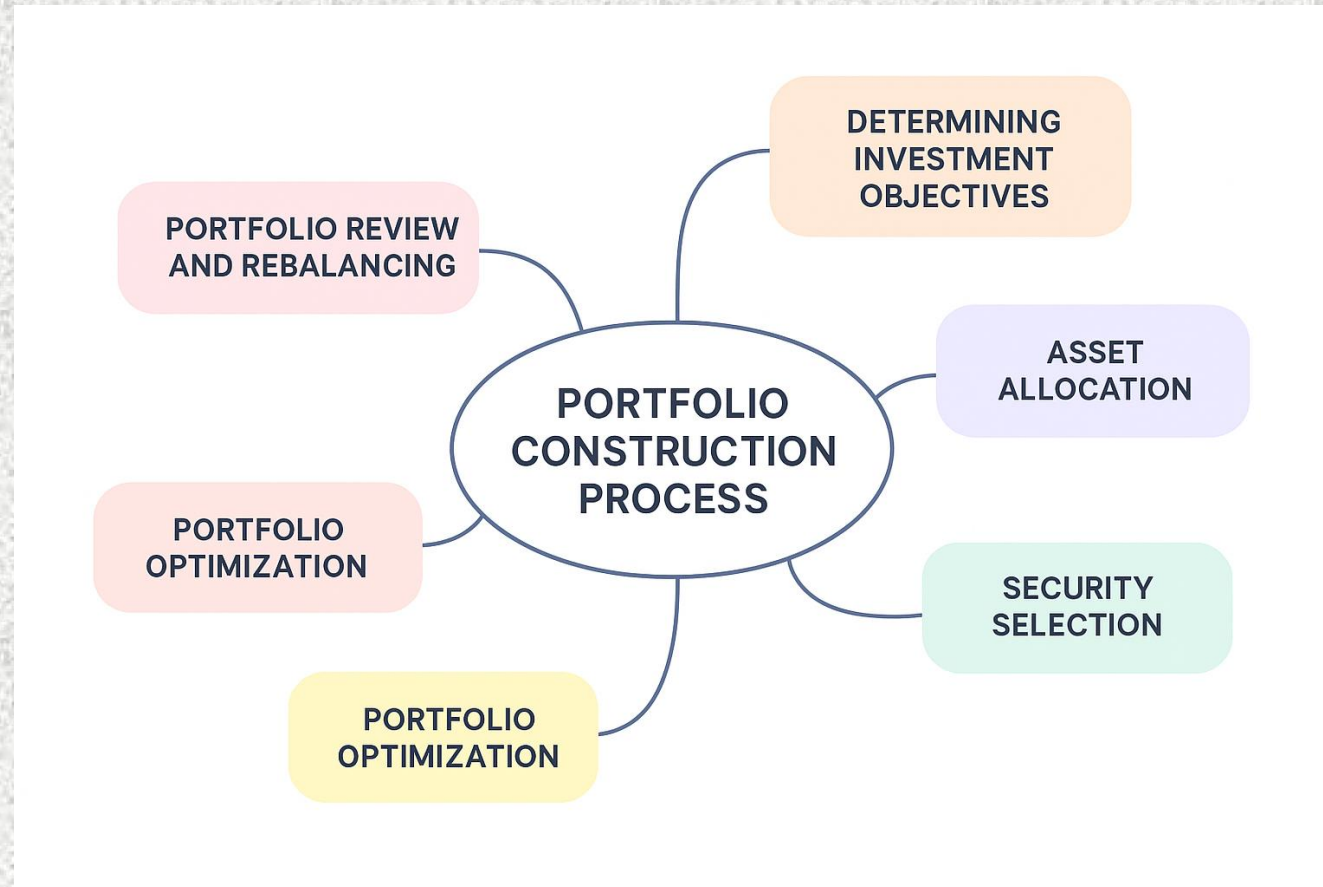
# Challenges in Portfolio Construction

- Market volatility
- Changes in interest rates
- Inflation impact
- Behavioral biases
- Tax and transaction costs





# Mind Map of Portfolio Construction Process





# Conclusion

- Portfolio construction is both an art and a science.
- Success depends on clear objectives, analysis, diversification, and discipline.
- A well-constructed portfolio helps achieve financial stability and long-term growth.



# Summary

- ✓ Portfolio construction is a systematic process of selecting a mix of investment assets to achieve specific financial goals.
- ✓ It involves aligning risk tolerance, return expectations, and investment horizon with proper diversification.
- ✓ Steps include defining objectives, asset allocation, security selection, and continuous performance evaluation.
- ✓ A well-constructed portfolio minimizes risk while maximizing expected returns through strategic asset balancing.
- ✓ The process is dynamic—regular review and rebalancing ensure alignment with market conditions and investor goals.



# References

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Thank you!

