

Portfolio Management: What Is It And How Does It Work?

Have you ever wondered why some investors seem to consistently outperform other investors over time? The answer lies in systematic portfolio management. If you want to get started investing, read our guide on portfolio management.

You might have heard about Personal portfolios applying for jobs. Portfolios provide you with a personal record of your success or improvement record. It's essential and relevant to your career development.

A personal portfolio is a compilation of relevant work samples and documents gathered during your learning years and presented in a structured manner when you apply for a job. Now let's learn about portfolios in businesses.

A portfolio is a combination of financial and physical assets such as stocks, bonds, commodities, cash, closed-end funds and exchange-traded funds (ETFs), including gold, silver, real estate, rare collections, etc. People generally believe it comprises the core of a portfolio.

What is portfolio management?

Portfolio management is the art of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of customers and a company.

Professional licensed portfolio managers work on behalf of customers and their ultimate goal is to maximise the investments' expected to return within an appropriate level of risk. While individuals may choose to build and manage their portfolios. Portfolio management requires strengths and weaknesses, opportunities and threats across the investment

process.

Types of portfolio management

1) Active Portfolio Management:

The active portfolio manager aims to make better returns than what the market shows. Active portfolio managers buy stocks when they are undervalued and start selling when they climb above the standard. Active portfolio management involves the quantitative analysis of companies to determine the cost of stock about its potential prices. To make it riskless the active manager prefers to diversify investments among the various sectors.

2) Passive portfolio management:

Passive portfolio management can be referred to as index fund management. This is because it is typically designed to parallel the returns of a particular market index or benchmark as closely as possible.

Therefore, passive portfolio management prefers to dabble in index funds which have a low turnover, but good long-term worth.

3) Discretionary Portfolio Management:

In discretionary portfolio management, the portfolio manager makes all the investment decisions without any input from the investor side. This is for the investors who don't have time to dedicate to investing or don't have the knowledge base required for investing. Having professional management make investment decisions on one's behalf can be beneficial.

4) Non-Discretionary Portfolio Management:

A non-discretionary style is when the investor makes all the investment decisions while the manager takes on more of a consulting role in this. Most financial advisors fall into this category by presenting investors with options, discussing the merits of each, but ultimately letting the individual investor select which assets or securities they want to invest in.

The advantage here is given to the investor to make choices and guide the portfolio while still having professional management to rely on for expert advice and opinions.

How To Perform Portfolio Management?

1. Identification of objectives

The portfolio management process is to identify the limitations and objectives and should focus on the objectives of an investor which may be income with a minimum amount of risk, capital appreciation or future provisions.

2. Selection of the asset mix

Here identifying different assets is important that can be included in the portfolio to spread risk and bare minimize loss. In this step, the Portfolio management process may contain a mix of shares, equity shares, bonds etc. The percentage of the mixed asset depends upon the risk tolerance and investment limit of the investor.

3. Formulation of portfolio strategy

After choosing a certain asset mix the next step in the portfolio management process is the formulation of an appropriate portfolio strategy. There are two choices for the formulation of a portfolio strategy, namely an active portfolio strategy; a passive portfolio strategy.

4. Security Analysis

Security analysis needs the sources of information based on the analysis. The portfolios are analysed by considering their price, possible return, risks, etc. As the ROI is linked to the risk associated with the security, security analysis helps to understand the nature and extent of the risk of a particular security in the market.

5. Portfolio Execution

When a selection of securities for investment is complete the execution of portfolio strategy is important in a portfolio management process. Portfolio execution is related to buying and selling of specified securities in given amounts This execution process has a bearing on investment results, it is considered one of the important steps in portfolio management.

Summary

A portfolio refers to a collection of investment tools such as stocks, shares, mutual funds, bonds, cash etc which is depending on the investor's income, budget and convenient time frame. The art of selecting the right investment policy for individuals in terms of minimum risk and maximum return is called portfolio management.

Portfolio management refers to managing an individual's investments in the form of bonds, shares, cash, mutual funds etc so that investors can earn the maximum profits within the

time frame.

FAQ's on portfolio management:

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