RISK ASSESSMENT IN STOCK MARKET THROUGH SHARPE’S SINGLE INDEX MODEL

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ABSTRACT
Investment decisions are premised on an important assumption that investors are rational and hence prefer uncertainty. Investors are risk averse. They would be unwilling to take risk just for the sake of risk. They would assume risk only if an adequate compensation is forthcoming. There would be several different levels of risk and different associated expectations of return. The basic investment decision would be a trade-off between risk and return. The investor postpones consumption, sacrifice takes place in the present and is certain whereas the benefits occur in future and are uncertain. A rational investor would constantly examine his chosen portfolio both for average return and risk. A model of stock returns that decomposes influences on returns into a systematic factor, as measured by the return on the broad market index, and firm specific factors. The relationship is between a security's performance and the performance of a portfolio containing it. The basic objective of this paper is to know the changes in stock prices are largely dependent on human opinions and expectations about the future performance of a stock or share using William Sharpe’s Index Model.

KEY WORDS: Investment decisions, risk, return, rational investor and Sharpe’s index model.