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A STUDY ON SUITABILITY OF WILLIAM SHARPE'S SINGLE INDEX MODEL IN SENSEX IN THE INDIAN CONTEXT

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ABSTRACT

A portfolio consists of any combination of assets and / or securities, the outcome of which cannot be defined with certainty. A portfolio goes with a saying that "A wise man never puts all his eggs in one basket". Since it is rarely desirable to invest the entire funds of an individual or an institution in a single security one should always consider investing in a portfolio. It is essential that every security be viewed as a part of portfolio. Two basic principles of finance form the basis for portfolio theory, namely, Time value of money and the Safety of money.

The objectives of the study are to elicit the applicability and utility of the single index model in Indian context, to construct a corner portfolio using single index model for Sensex in India, and to evaluate the performance of the portfolio thus constructed in terms of its rate of return. The exploratory research is used for the study. With the characteristics of risk and return of individual securities an optimal portfolio constructed. The research conducted is an analytical study, in this paper a study is conducted to determine the level of portfolio mean returns constructed through Sharpe Single Index Model. Data required for this study was secondary data which was collected from various secondary sources like Capital Line Database, BSE, Ministry of Banking, Investopedia, Economy Watch etc. The sampling technique followed for the study is non-probabilistic judgmental sampling. The sample units were identified based on certain criteria which suited for the objective. The sample consists of 30 companies listed in Sensex selected on the basis of the research objective.

Key words: Sensex, Investment, Portfolio,