equaliFi ACADEMY

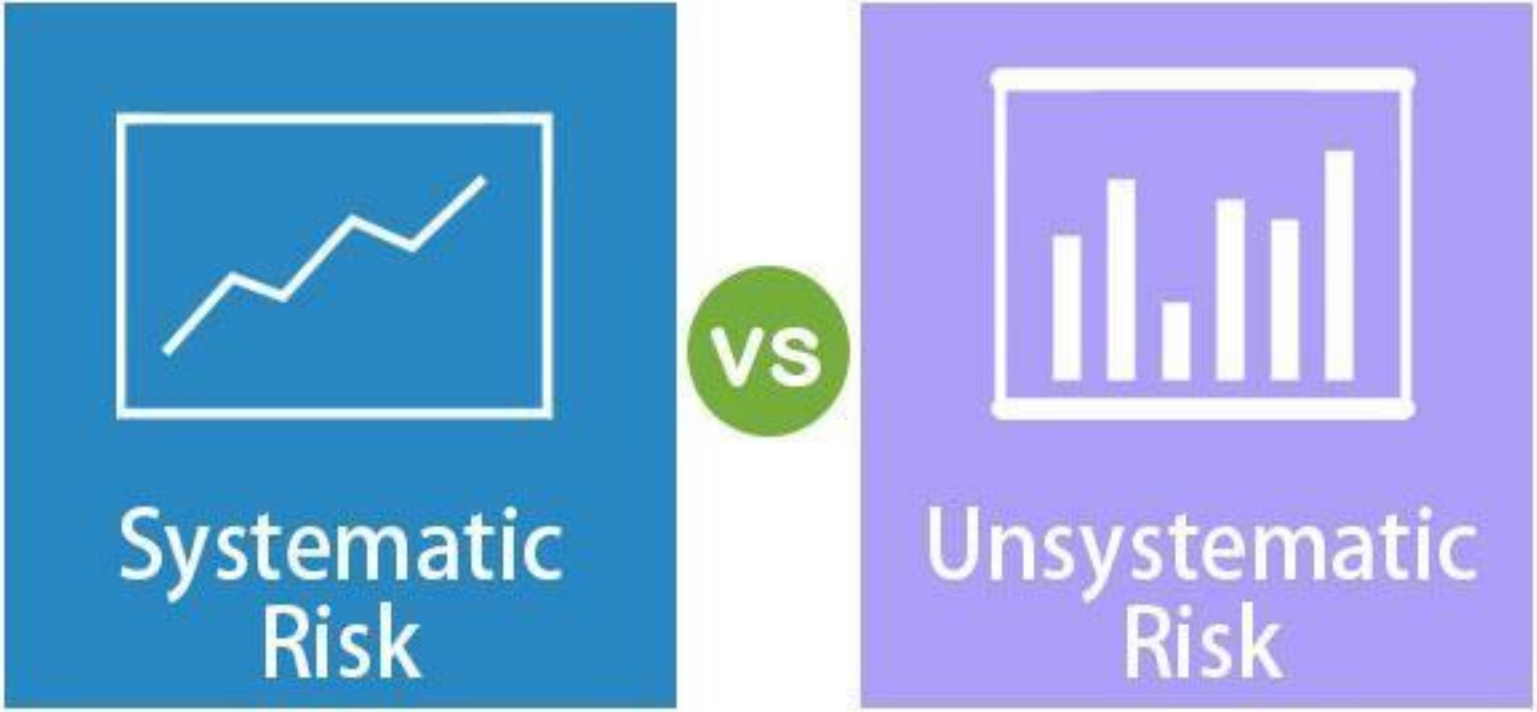
CPBM®

CERTIFIED PRIVATE BANKING MANAGER®

Session 3 & 4 - Risks & Financial Mathematics

Presentation Order

- Systematic v/s Unsystematic
- Different Types of risk
- Risk Measurement Tools
- Time value of Money


Systematic
Risk
VS
Unsystematic
Risk

#1. Meaning

Risk/Threat associated with the market or the segment as a whole.	Hazard associated with specific security, firm or industry.

#2. Impact

Large number of securities in the market.	Restricted to the specific company or industry.

#3. Controllability

Cannot be controlled.	Controllable.

#4. Hedging

Allocation of the Assets.	Diversification of the Portfolio.

#5. Types

Interest Risk and Market Risk.

Financial and Business specific Risk.

#6. Responsible Factors

External.

Internal.

#7. Avoidance

Cannot be Avoided.	Can be avoided or resolved at a quicker pace.

Types of risk an Investor Faces

Systematic Risk

Equity and Debt	• Inflation Risk • Currency Risk • Political Risk
Debt	• Interest Rate / Reinvestment Risk

Unsystematic Risk

Debt	• Liquidity Risk • Credit Risk
Equity and Debt	• Business Risk • Operational Risk
Portfolio Risk	• Concentration Risk • Horizon Risk • Longevity Risk

Portfolio Level Risk

Concentration Risk

- Sector
- Security

Horizon Risk

Longevity Risk

Risk Measurement Tools

Risk Measurement Tools

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Standard Deviation

- Deviation from its own past standards
- Higher the number more the risk
- Applicable to Equity & Debt both

Beta

- Measures risk compared a diversified equity index
- Higher the number more the risk
- Applicable to Equity

Risk Adjusted Ratio

Sharpe

(Portfolio Return *minus* Risk Free return) / Std. Dev of the Portfolio Returns

Higher the number more superior the risk-adjusted returns

Applicable to Equity & Debt both

Treynor

(Portfolio Return *minus* Risk Free return) / Beta of the Portfolio Returns

Higher the number more superior the risk-adjusted returns

Applicable to Equity

Alpha

Portfolio Return minus Index Return

Higher the number better the performance

Applicable to diversified equity schemes

Financial Mathematics

Know your numbers

Time Value of Money

- FV
- PV
- Rate
- Nper

Regular Transaction

- SIP
- EMI

Returns

- IRR
- XIRR

Thank You