Identification of External Financing Sources and Cash Flow

Portfolio management is a management skill that involves managing all projects within organization so that they can maximize earnings and increase return of investments.

Objectives of Portfolio Management

The basic objective of Portfolio Management is to earn a high return at minimum risk. However, some of the objectives of Portfolio Management are listed below:

1. **Attaining Long-term Financial Goals:**

An investor always invests with a motive to secure the future by earning a high return, keeping this in mind Portfolio Management works with the objective to fulfil the long-term financial goals of the investors by recommending the most profitable portfolio, overseeing, and rebalancing it from time to time to ensure high return with minimum risk appetite.

2. **Capital Appreciation:**

Capital appreciation means an increase in the value of an asset over a time. Portfolio Management intends to make the portfolio of the investor grow, so the market value of the investment rises within the given timeline, in comparison to its purchase value. Capital appreciation is the main source of investors' earnings.

3. **Maximizing Return on Investment:**

Return on Investment shows the earning from the investment in relation to the expenditure made in such investment. Portfolio Management aims to maximize the return on investment by analyzing the market before selecting the right investment mix. Other factors like time, inflation, Legal restrictions, and economic conditions are also considered.

4. **Achieving Asset Allocation:**

The primary objective of Portfolio Management is to allocate assets across different investment classes, such as equities, fixed income, and alternative investments in such a way that the asset allocation goes with the investor's risk profile and investment goals.

5. **Risk Management:**

Investment and risk are something that goes side by side and hence is a major concern of the investors. Portfolio Management minimizes the degree of risk associated with the investment by using the concept of diversified investment. Under this, investment is not made in a single category of an asset or the same industry, rather the investment is scattered into various investment classes or different industries, so even if any of the categories or industries so a downfall the other can overcome it by experiencing the rise.

6. **Rebalancing and Monitoring the Portfolio:**

Portfolio Management aims to regularly monitor and adjust the portfolio by rebalancing the portfolio, adding, or removing assets, or changing investment strategies so, it remains consistent with the investor's risk profile and investment goals.

Types of Portfolio Management

Portfolio Management can be classified into:

1. **Active Portfolio Management:**

In active portfolio management, a portfolio manager is continuously involved in the activity of trading securities to outperform the market and achieve specific financial goals. They basically aim at buying unvalued securities and then selling them at a high price to earn a profit. Active portfolio management is characterized by higher fees and commissions.

2. **Passive Portfolio Management:**

Passive portfolio management is based on the theory of invest-and-forget strategy. Under this, investments are made into a portfolio of index funds to replicate the performance of a particular market index like an exchange-traded fund (ETF), a mutual fund, a unit investment trust, and other low-cost index funds. These generally offer lower returns but are profitable in the long term. The management fee is comparatively lower under this category.

3. **Dynamic Portfolio Management:**

Dynamic portfolio management can be understood as hybrid portfolio management as it includes features of both active and passive portfolio management. Under this, Portfolio Managers implement long-term investment strategies while making tactical adjustments and rebalancing in response to market changes.

4. **Discretionary**

Discretionary portfolio management forms authorize managers and financial experts to make all the financial decisions on behalf of their clients without seeking any separate approval each time. However, paperwork and filing are done initially to avoid any conflict and confusion between the manager and their clients. A portfolio manager has full control over investment decisions, while the investor provides only general guidelines and objectives.

Ways of Portfolio Management

The way to manage a portfolio highly depends on the investor's financial goal and risk appetite. However, some of the ways of Portfolio Management include:

1. **Asset Allocation:**

Asset Allocation strategy help the investor or portfolio manager to select the asset class (i.e., stocks, bonds, cash, etc.) to be invested in. Such allocation shall be compatible with the financial goal and risk-bearing of the investor. A young investor can bear more risk and

hence can allocate the investment to a riskier class such as equity, whereas a person closer to retirement is able to bear the low risk and opt for a safer asset class like bonds/ debenture.

2. **Diversification:**

Diversification is an integral part of portfolio management. Portfolio managers use a diversification strategy of investment to minimize the risk factor. The basic feature of diversified investment is that the profit made by one asset class can easily offset the losses incurred by another class. In the long run, diversified investment yields high returns at minimum risk of loss.

3. **Rebalancing:**

Rebalancing is a process of adjusting the asset allocation of the portfolio by selling and buying the assets. Rebalancing becomes important to overcome the threats of the financial market and minimize the risk. It is basically a process of selling assets whose value has increased and buying the assets that have been undervalued to stay confined to the investor's goals.

4. **Tax Management:**

Tax management way of overseeing the portfolio is linked to the asset location i.e., investing either in a taxable investment account or a tax-friendly investment account. Investing in tax-efficient investments, harvesting tax losses, and maximizing tax-deferred investment accounts help in optimizing the taxes to get the maximum benefit out of the investment.

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