

**Article Title:**

Value at risk analysis: NIFTY index portfolio

**Publication / Source:**

SCMS Journal of Indian Management

Volume / Issue: 8(1)

Page No. 67-72

Copyright (Year): Jan-Mar 2011

Language: English

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*Among the various risk measures for effective portfolio management, Value at Risk (VAR) is considered as an ideal measure in determining boundaries of risk levels. In this exploratory study, the impact of various methods of calculating VAR and the impact of specific time periods in the determination of VAR is analyzed. When it comes to a market representative index, there is little to choose from the three methods discussed - historical method, historical simulation method and the Monte Carlo Simulation method. The boundary levels under each method are not breached for the period under consideration.*

In wealth management, Value at Risk (VAR) models have a special place. While practitioners and academics have constantly differed on the precise parameter that needs to be considered in a VAR, it has been widely recognized that some variant of VAR will be necessary as an important parameter of risk measure.

While conventional measures using Value at Risk are easy to measure, they do not serve the purpose in a portfolio setting. This is because of the multiple variants that can occur in a portfolio holding including the correlation among the compo-

ponents therein. Theoretically these can be addressed by having a good estimation of the relationship inter se, but in practice this is not quite that easy. Further the various conventional methods also do not tell us as to the precise measure that could be useful in a given distribution since, it would also depend on the way we calculate returns.

In the following parts we look at the theoretical framework of VAR followed by a gleaning of some current research into its practical application in everyday situations. We then make a study of the behaviour of NIFTY stock over various periods and



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