Semester: VIII Subject: AIFB. Academic Year: 2024-25

FINANCIAL RETURNS:

Financial returns refers to the gain or loss made on an investment over a specific period of time, expressed as a percentage of the initial investment.

Financial returns can be categorized into two main types:-

* Absolute Return
* Relative Return

Absolute Return:

The absolute return is the actual gain or loss made by an investment over a certain period of time.

Formula:

$$\boxed{\text{Absolute Return} = \frac{\text{Ending Value} - \text{Beginning Value}}{\text{Beginning Value}} \times 100}$$

Example:

If you invested \$1000 in a stock, and after 1 year the value increased to \$1200, the absolute return would be?

$$\text{Absolute Return} = \frac{1200 - 1000}{1000} \times 100 = \boxed{20\%}$$

This means you made a 20% return on your investment over the year.

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Relative Return :-

Relative return refers to the performance of an investment compared to a benchmark or a market index. This allows investors to assess how well an asset performs relative to the broader market or a specific sector.

Formula :

Relative Return := Return of the Asset − Benchmark Return

Example :

If your investment returned 15% and the benchmark returned 10%. Your relative return would be:

$$\text{Relative Return} = 15\% - 10\% \boxed{= 5\%}$$

This means your asset outperformed the benchmark by 5%.

CAPITAL ASSET PRICING MODEL (CAPM) :