EXPECTED RETURNS = sum of (probabilities & possible returns)

Prob.	Possible Return (over next year)
0.5	50%
0.3	10%
0.2	-20%

Exp. Return = 0.5 * 50% + 0.3 * 10% + 0.2 * -20% = 24%

Standard deviation = 28%, link to Normal Distribution

IIMB
तेजस्वि नावधीतमस्तु

Risks

- Business Risk
- Financial Risk
- Exchange rate/Country risks
- Systematic and unsystematic risks
  - Beta Risk

✓ Systematic risk – risk inherent to the entire market.
– also known as “undiversifiable risk”, “volatility” or “market risk.”

✓ Unsystematic risk – risk specific to a particular stock or industry.

Beta Risk

- ✓ Statistical measure of systematic risk of an enterprise.
  - ✓ Systematic risk is the only risk that matters – since unsystematic risk cancels out when you diversify your portfolio.
- ✓ Beta risk is not diversifiable.