Risk assessment and return analysis

Finance

Risk Assessment and Return Analysis Risk Assessment and Return Analysis In investment, risk assessment and return analysis are vital elements are central to the payout structures of investment vehicles. The general utility theory asserts that the average investor dislikes risks and prefers investment vehicles with the least possible risk. Risk assessment entails the analysis of investment vehicles to discover their capacities to ensure sufficient returns on investment. Risk assessment entails the analysis of an asset's standard deviation or risk with regard to the expected return on investment (Bodie, Kane & Marcus, 2006). This paper will provide a comprehensive risk assessment and return analysis of the investment portfolio encompassing investments in Dell, Home Depot, Procter & Gamble, General Electric, IBM bond and Disney. Dell Although the company continues to perform relatively well, Dell is currently competing in a different market in which the company does not have a substantial advantage. Dell thrived in the past because of its product offering as the company concentrated on the sale of desktops that were built on order. Dell sustained low parts inventories to reduce overhead. Furthermore, Dell's direct sales program gives the company a low cost edge. While this ensures that the company's profitability remains high, the company does not have cost efficiency. The company will, however, continue to operate profitably thereby deterring risks such as liquidity risks. This means that the return on investments will remain relatively high as long as the desktop sector does not suffer economically. Disney Investing in blue chip companies such as Disney is always advantageous. However, investing in Disney offers relatively low yields on investment but low risks. This is because investing in defensive stocks, in Disney, ensures the investor low volatility with regard to the industry and low prices thereby providing easy buy-out options. In addition, Disney continually increases the dividend offerings on its shares hence providing low investment risks in which an investor does not receive any dividends or return on investments. Disney shareholders also enjoy the opportunity to convert their dividends into common shares reinvested in Disney's common shares (Bodie, Kane & Marcus, 2006). Moreover, Disney has long been the market leader in its industry, which exemplifies the company's formidable decision making strategies that continue to yield high returns and ensure returns for their investors. General Electric General Electric, which is the second largest company within the US, has a market capitalization of approximately 320 billion. Despite this high rank, the company's shareholders do not enjoy the benefits of being affiliated with the large multinational. This is because the company's long-term price performance is quite dismal. In 2000, General Electric's stock sold for $48 per stock by 2002 they sold for $17 per share. By 2007, the shares had recovered to sell for $37 but have since plummeted to just under $16 per share. Fundamental evaluations of return yield i. e. analysis of cash flow and earnings foretold this meager performance of GE's stocks. They also continue to indicate the low return rates on GE's stocks. Home Depot Investing in home depot is beneficial since investors enjoy low financial risks, particularly because of the company's massive market capitalization, exemplary credit rating and large cash balance proportions (Costantini, 2006). Home Depot continues to offer high returns on investment or capital while the company's consistent cash flow enables it to return high value to shareholders. This is through strategies such as share buybacks and dividends. Home Depot's international expansion offers the possibility for long-term growth. Although the industry tumbled in the past, Home Depot's management initiatives helped to improve store experience thereby driving results such as market recovery. Procter & Gamble Like most companies, Procter & Gamble frequently procures financial assistance from financial institutions (Hackel, 2010). Debts can be highly risky if the company cannot sustain their repayment, as well as sustenance of their core operations. However, because of its strength, especially in terms of profitability and diversification, Procter & Gamble has sufficient free cash flow to enable it to pay off all its debts from earnings from company operations. This not only guarantees returns on investments but also ensures that investors do not lose money as a result of liquidation risks. IBM Bond The current bond market is quite lucrative for company in the US, particularly with regard to the exceedingly low interest rates. However, investors in the bonds market suffer adversely from such low interest rates. Yields on investment-grade corporate bonds fell from 3. 97% to 3. 56% since September 2011 and reached lows of 3. 503% by August 2012. This indicates continued risk of low yield on investments in IBM corporate bonds. There is also a notable risk with regard to the EU debt crises. This could lead to cascading bank and government failures thereby affecting return rates. Currently, the return analysis on IBM bonds is slowly receding following low interest rates. References Bodie, Z., Kane, A., & Marcus, A. (2006). Investments (6th ed.). New York: McGraw-Hill/Irwin. Costantini, P. (2006). Cash return on capital invested: Ten years of investment analysis with the croci economic profit model. Oxford: Butterworth-Heinemann. Hackel, K. S. (2010). 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