

# Aqr vi.d.9

Science, Mathematics



Beta Value Number Criterion The stock under consideration was selected based on the share price of least \$5 per share. The specification was the general principle that governed the selection. However, in order to narrow down on the investment portfolio, additional criteria were considered. Fundamental analysis was first conducted. Under this analysis, the main consideration was the financial health and core performance. Therefore, the selection criterion was based on the extent of debt financing, solidity of cash flow and consistency in revenue generation (Damodaran 56). Moreover, the stock selection factored in dividend selection. In this analysis, the number of times a company pays a dividend was considered. Also, price to earnings ratio was considered. Consequently, the two approaches resulted to the selection criterion whereby the firms with a high price to earnings ratio and paid dividends four times a year were preferred. Finally, technical analysis was conducted. Under this analysis, the main consideration was the price activity on the stock chart. As such, the firms with a relatively stable trend were preferred. The combination of the three forms of analysis was used to arrive at the selected stocks and the amount of stocks that were invested in each.

The beta value of the portfolio is -25.15180862 against a benchmark of -32.701. The figure is computed by summing the change in value of the portfolio and dividing the figure by the summation of changes in value of the benchmark.

$$\text{Beta} = 39.218\% / -1.559\% = -25.1518062\%$$

Therefore, the portfolio Beta beat the market value Beta since -25.

1518062% is greater than -32.701%. However, in the two cases, Beta is

negative implying that the general trend is opposite to that of the market. The game serves as an eye opener on the importance of computing individual beta value. The reason is that having an individually computed Beta value eliminates the limitation that may be found with the S & P 500 benchmark due to its generalization. As a result, one can have precise Beta value for a portfolio which specifically focuses on the stocks themselves. The approach improves the accuracy in one's ability to predict the returns.

#### Works Cited

Damodaran, Aswath. Applied corporate finance. 3rd ed. S. l.: s. n.], 2011. Print.