Week 7 dq

Business

Security Analysis" Riskless Portfolio By 13 Apr Riskless Portfolio In finance risk is the basis for assessing and investing in securities. The short and long term securities both vary in their risk and return relationship that is based on many factors including the issuer of the security, maturity period, inflation scenario, industry performance etc. Generally government securities are considered to be risk free as the government is treated as the most reliable and definite source of paying back the investor. The difference between the bond and Treasury bill is the nature of their maturity but the issuer however is the same which is the government.

' Risk free rate of interest is the rate of interest on a debt instrument with no default, maturity or liquidity risk.' (Melicher & Norton, 2011) By definition the portfolio of government bond has liquidity and interest rate risk due to the length of its maturity period but for long-term investments the Treasury bond reflects as a more logical default free holding period return for longer term investments. Treasury bill is the closet example of the riskless securities as they hold zero or very minimal liquidity and maturity risk. The $250, 000 portfolio of Treasury bills is more risk free as compared to the Treasury bind portfolio of 30 years maturity. However, government these days have also defaulted in various parts of the world therefore, there is no complete risk free security in the practical sense. Securities other than the government bonds and treasury bills that are close to the riskless concept are the fixed accounts, certificates of deposits, inflation protected securities and indexed bonds etc.

Reference:

Melicher, R., & Norton, E. (2011). Introduction to finance: Markets,

investments, and financial management. (14th ed., p. 186). John Wiley & Sons Inc.: New Jersey.