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Technique to Choose Best Portfolio on The Basis of Companies' Performance

The construction of portfolios on the basis of CAPM beta becomes difficult if Capital Asset Pricing Model (CAPM) fails to explain returns. A test of CAPM on Karachi Stocks Exchange (KSE) shows a negative linear relationship between stocks beta and its returns for the period July 2007 to June 2013 and no relationship for July 2010 to June 2013. However, Jensen's alpha has a positive linear relationship between its values and returns. Furthermore, alpha coefficient is a better representative of risk coefficient instead of CAPM beta. It is observed that the portfolio of poor performed or risky stocks gives higher return in future. The research inferred that poor performed securities (likely to survive in future) could be chosen in a portfolio for best future return.

Keywords: CAPM Beta, Jensen's Alpha, Portfolio investment, Risk coefficient.

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