

**CONSTRUCTION OF OPTIMAL PORTFOLIO  
SIMPLE SHARPE PORTFOLIO OPTIMIZATION MODEL**

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# ABSTRACT

The objective of this study is to construct the optimal portfolio by utilising Simple Sharpe Portfolio Optimization Model.

In this study samples are taken from construction sector listed at KLSE. There are 12 companies being evaluated.

Optimal portfolio is determined by looking at the cutoff rate point and the excess return to beta value. Those securities with excess return to beta value that is above the cutoff rate point  $C^*$  are under the optimal portfolio.

From this analysis we noticed that there are 9 companies under the optimal portfolio. The companies are YTL, Sg. Way, Siah Bro., UEM, Promet, Renong, IJM, PJ Dev. and Gen. Corp. These companies provide an excess return to beta value higher than  $C^*$ . This portfolio gives a high return and a low standard deviation on portfolio. In other words these are the companies that will maximised the shareholders' wealth.

Simple Sharpe Portfolio Optimization Model helps the manager as well as the investors to maximise thier return.

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

The challenge to every portfolio manager is to design and maintain a diversified portfolio that maximises the expected rate of return for a given acceptable level of risk. Portfolio management, therefore, does not focus on maximisation of expected return alone, otherwise, one could outperform the market by adopting an aggressive investment strategy. The performance of the portfolio will then not reflect the manager's real capabilities but merely his willingness to take on high risk.

In retrospect, although a string of portfolio models have been developed in the last 40 years, none can claim to have any wide application in practice.

Consequently, till this very day, risk in portfolio management remains something which is qualitatively assessed. The development of portfolio theory is still at an infant stage and there is a real need for a model that is valid, easy and economical to