



risk. Examples of unsystematic risks may include strikes, outcomes of legal proceedings, or natural disasters. It comprises of business risk, financial risk and operational risk

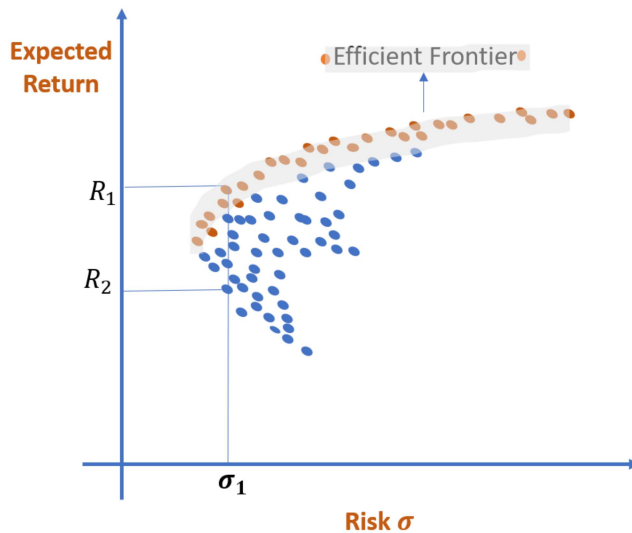
Differences between Systematic and Unsystematic Risk

Systematic Risk	Unsystematic Risk
Associated with the entire market.	Related to the specific industry, segment, or security,
Affects the entire market in varying degrees	Affects the stock of a specific company
Arises due to external factors	Arises due to the internal factors
Uncontrollable - manageable through hedging and asset allocation.	Controllable - using diversification

Q6. What is the efficient frontier? (Important)

A. Efficient frontier or portfolio frontier covers investment portfolios which occupy efficient parts of the risk-return spectrum. It is a graphical representation of portfolios that depict maximum returns for various levels of risk.

It is the set of portfolios which satisfy the condition that no other portfolio exists with a higher expected return with the same standard deviation of return (i.e., risk).



Efficient frontier contains efficient portfolios or optimal portfolios. Optimal portfolios that comprise the efficient frontier tend to have a higher degree of diversification than the sub-optimal ones, which are typically less diversified.

Efficient Frontier will help the investor choose and invest in the right portfolio.

