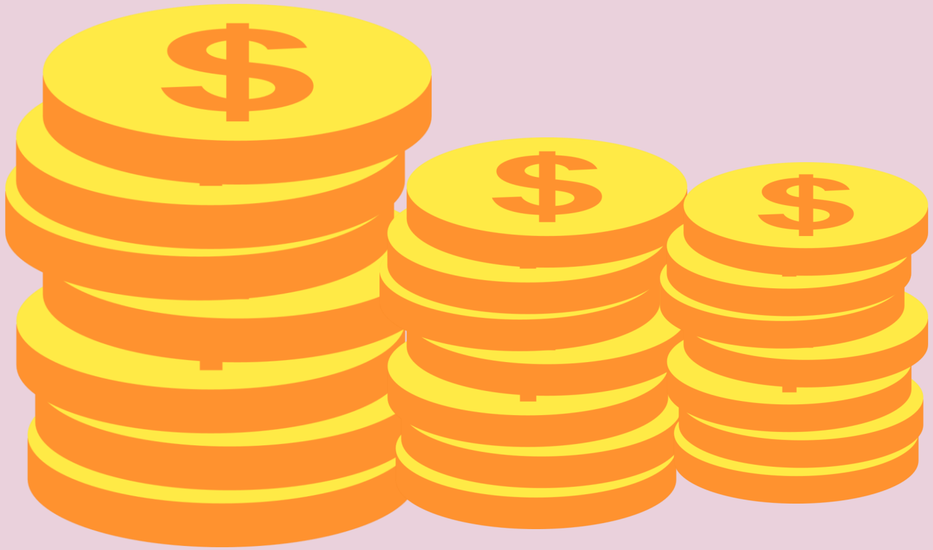
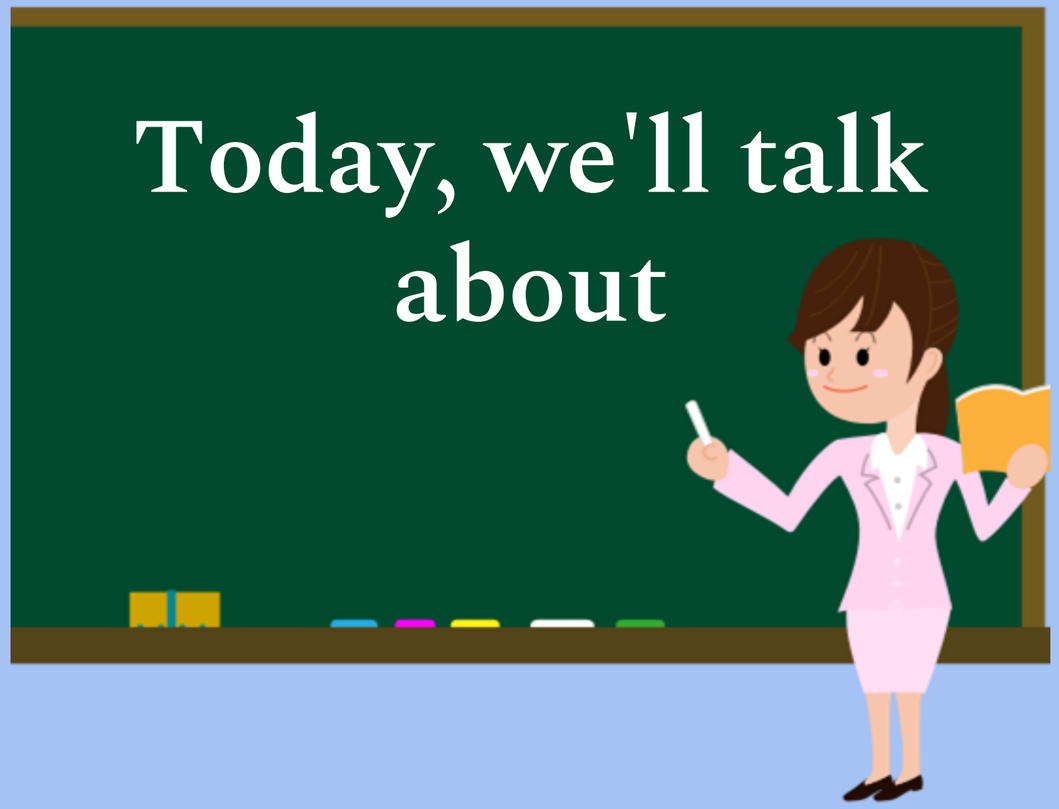
RISK AND RETURN





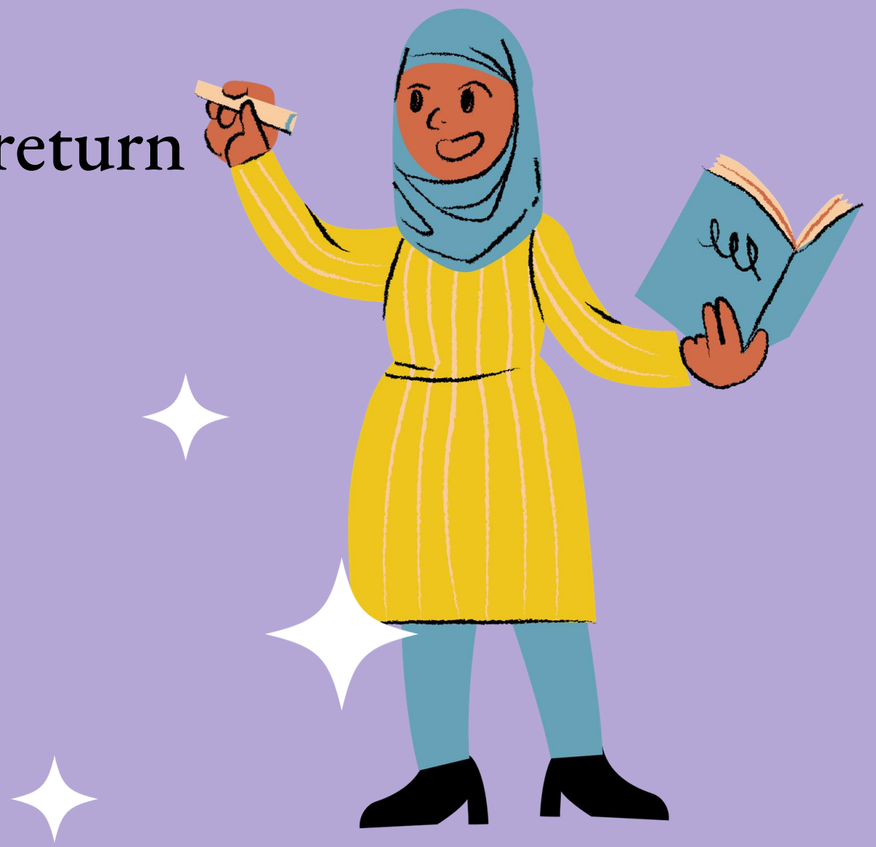
EXPLAIN CONCEPTS OF RETURN

EXPLAIN CONCEPTS OF RETURN

- Define return
- Describe rate of return – required rate of return & expected rate of return
- Calculate expected rate of return

At the end of the lesson, students should be able to:-

- Defines return
- Describe rate of return for required rate of return and expected rate of return
- Calculate expected rate of return

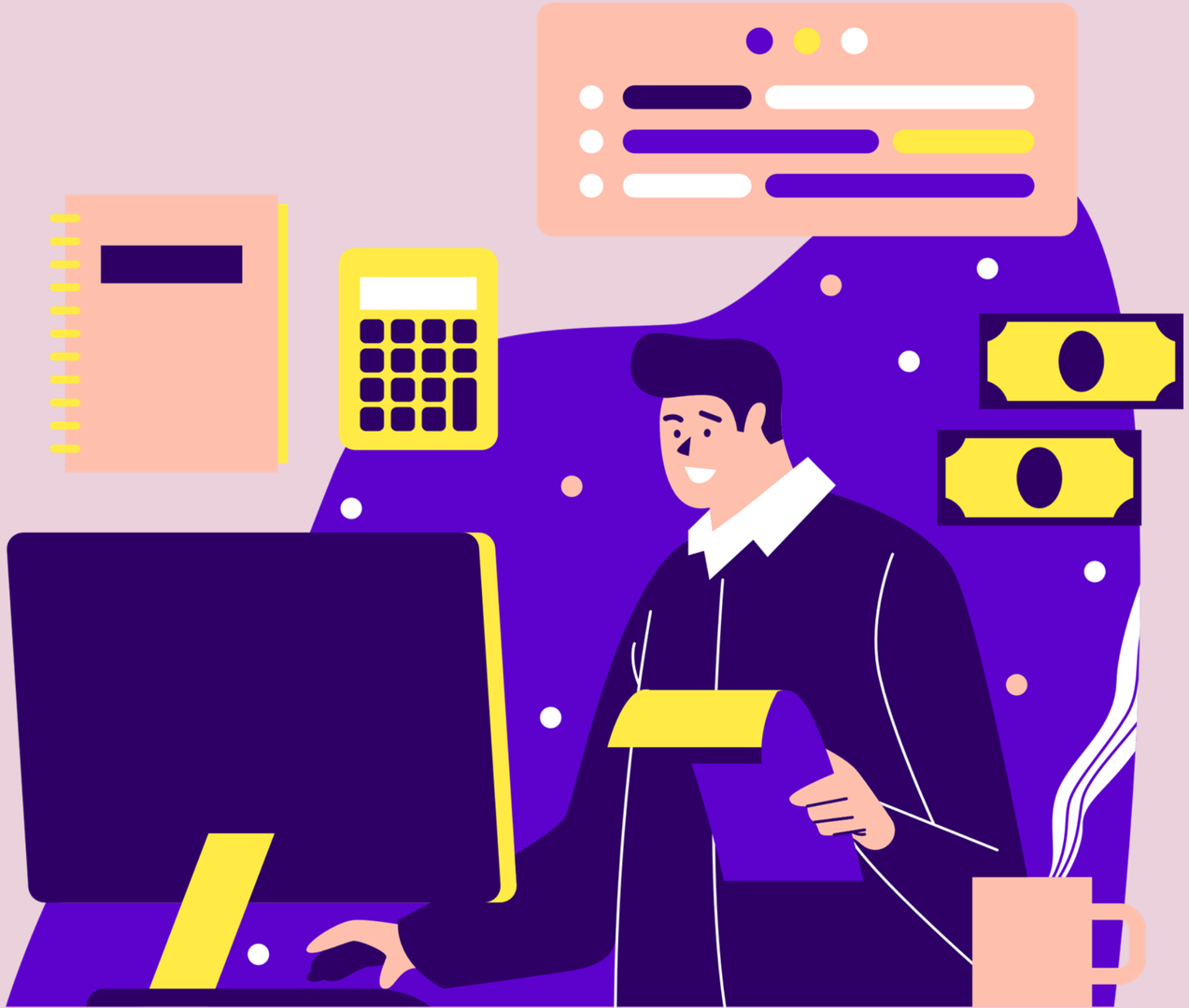


RETURN

The gains or losses that an investor will receive from an investment over some period

RETURN

Can be expressed in absolute monetary terms (RM) or in percentage (%)

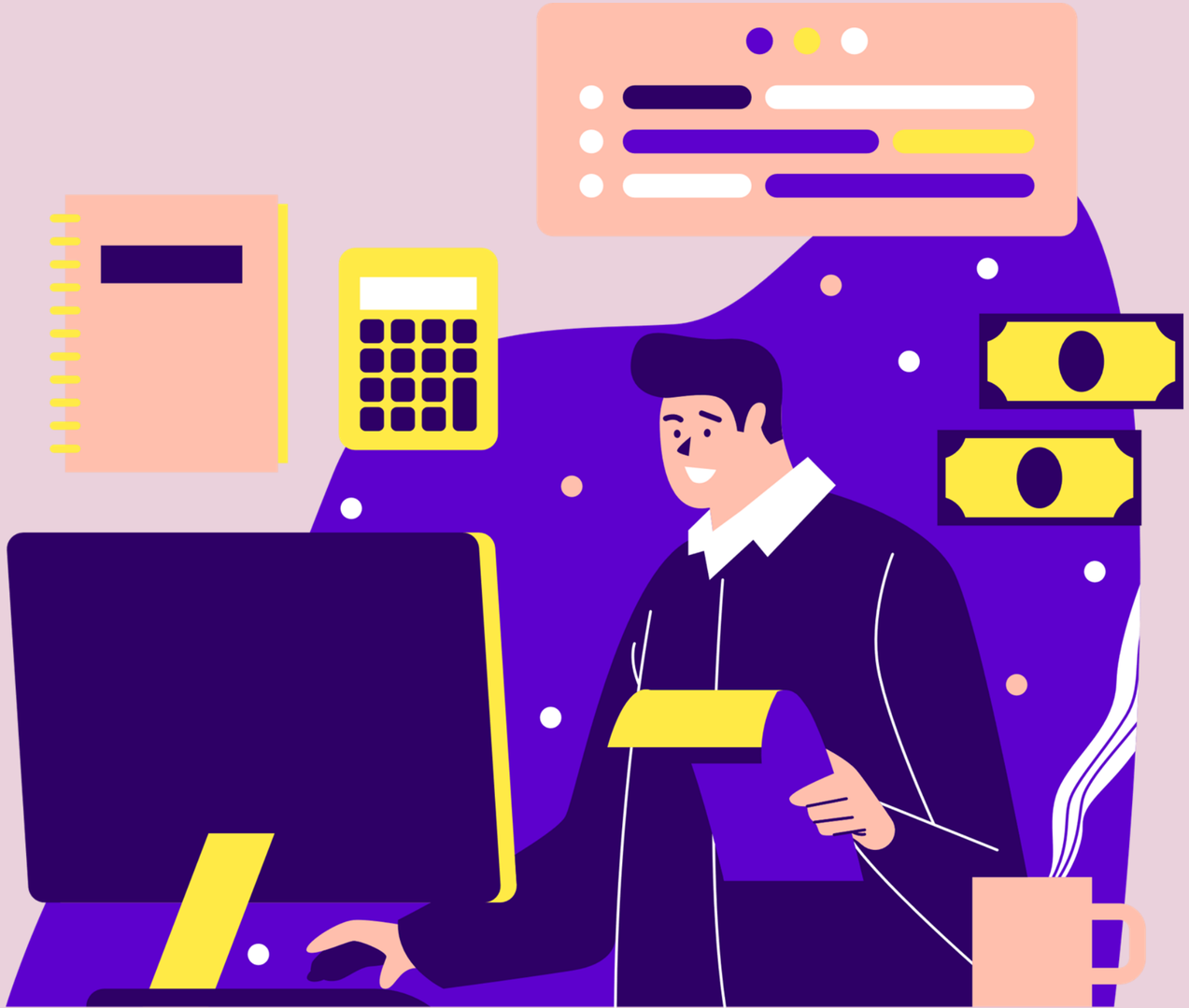


RETURN

In finance – the reward for investing

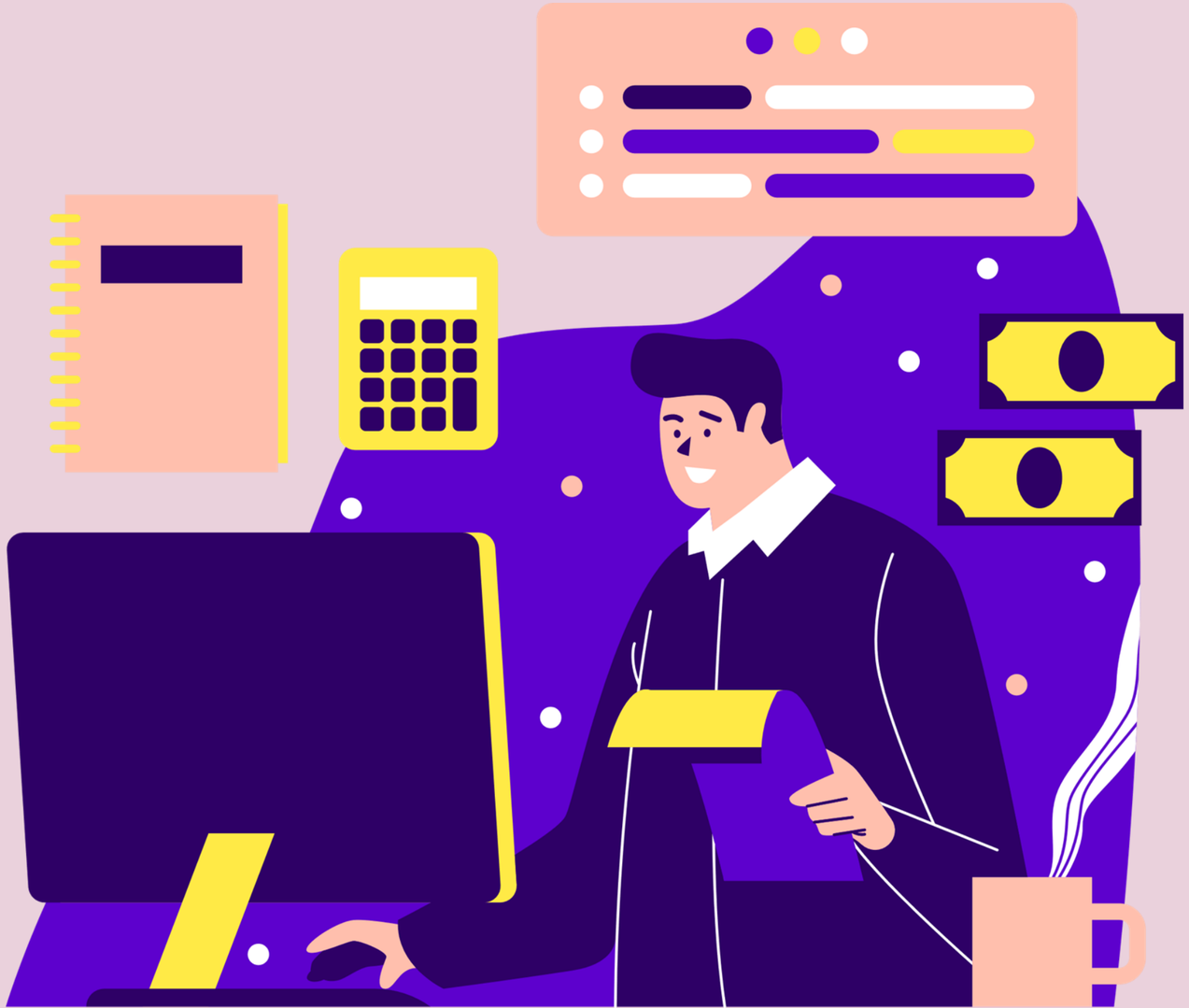
Return consists of periodic cash payment or current income and capital gains (losses) or increase (decreases) in market value

The periodic cash payment can be in the form of interest, dividends or rent



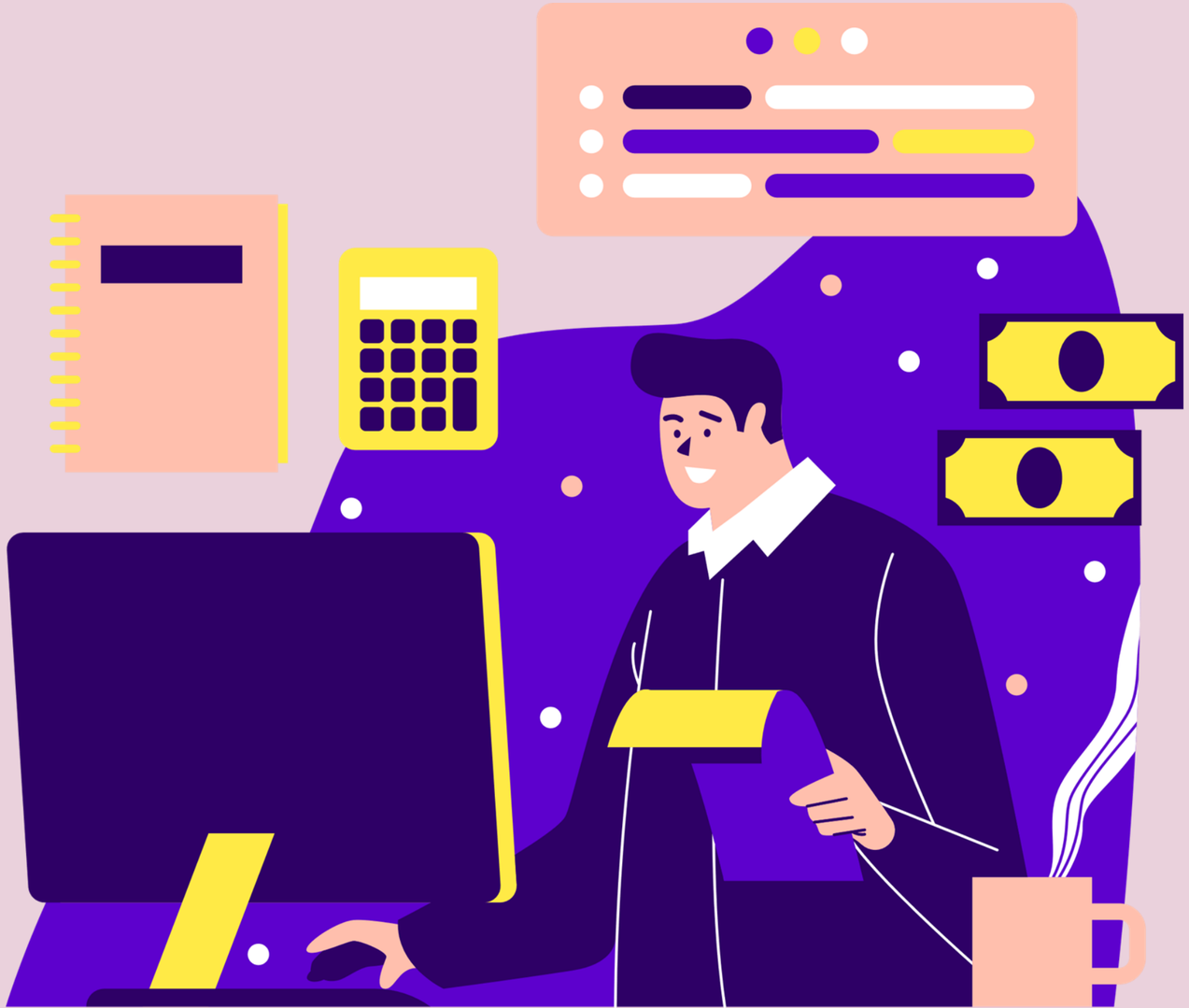
RETURN

When the sales price of an asset is greater than the purchase price of the asset, will earn capital gain or price appreciation

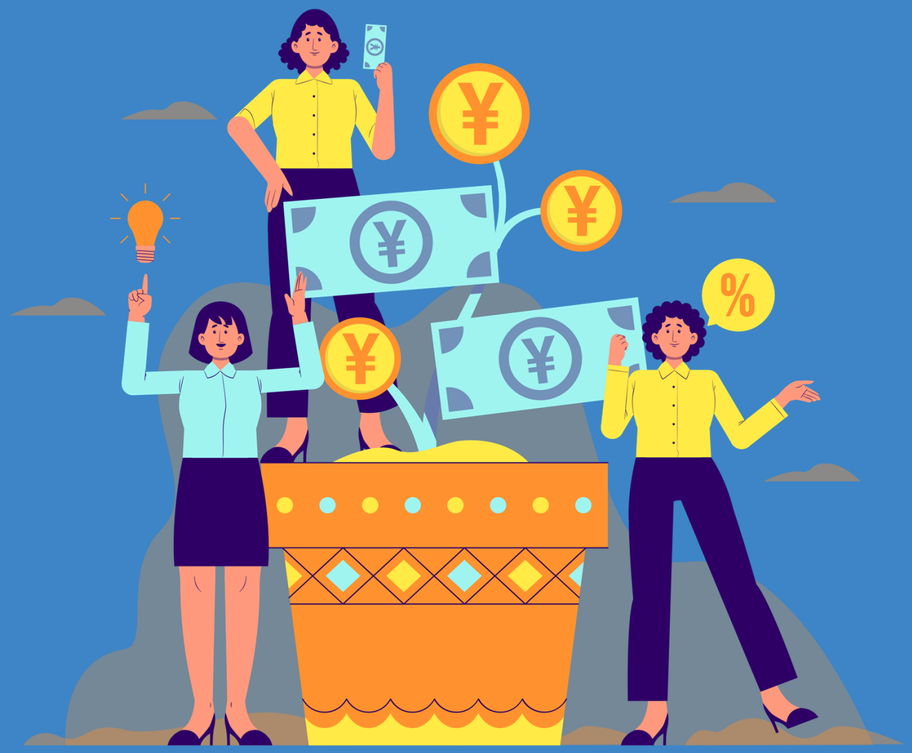


RETURN

When the sales price is lesser than the purchase price, will incurred capital loss or price depreciation



CLASSIFICATION OF RETURN



REALIZE RATE OF RETURN

REQUIRED RATE OF RETURN

EXPECTED RATE OF RETURN

REALIZE RATE OF RETURN

Actual return that has been earned or obtained from an investment

Historical in nature

REQUIRED RATE OF RETURN

The minimum rate of return required by investors to compensate for taking a comparable level of risk

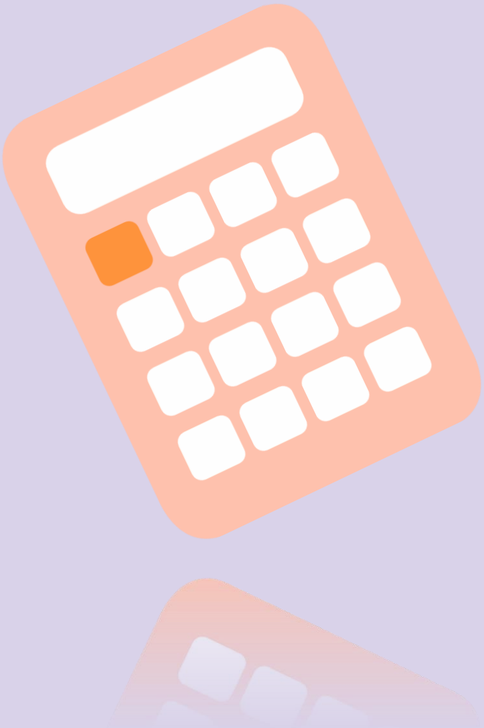
EXPECTED RATE OF RETURN

Is the return that is anticipated or expected by the investor based on the information from investment or economic analysis

The target return that the firm may desire to achieve

COMPUTING THE EXPECTED RETURN

The benefit or earnings that the investment would generate are in terms of cash flows, not accounting profits



COMPUTING THE EXPECTED RETURN

$$\bar{R} = \sum(P_i R_i)$$

$\bar{R}$= expected return
P_i = probability of occurrence of ith return
R_i = return of ith

$$k = [P_1 k_1] + [P_2 k_2] + \ldots + [P_i k_i]$$

COMPUTING THE EXPECTED RETURN

For example, please refer to my video

REMEMBER

The higher the return,
the higher the risk

REFLECTION

Students should be able to:-

- Defines return
- Describe rate of return for required rate of return and expected rate of return
- Calculate expected rate of return


THANK
YOU
GRACIAS
ARIGATO
SHUKURIA
DANKSCHEEN
BIYAN
SHUKRIA
TINGKI
YAQHANYELAY
TASHAKKUR ATU
SUKSAMA
EKHMET
GRAZIE
MEHRBANI
PALDIES
BOLZÏN
MERCI
JUSPAXAR
GOZAIMASHITA
EFCHARISTO
KOMAPSUMNIDA
MAAKE
SPASSIBO
SHACHALHUYA
CHALTU
NUHUH
WABEEJA
MAITEKA
HUI
YUSPAGARATAM
DHANYAVAAD
ATTO
SPASIBO
DENKAUJA
NENACHALHYA
MERSI
UNALCHEESH
HATUR
GUI
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MAKETAI
MINMONCHAR
MERASTAWHY
GAEJTHO
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