

## **Optimal method of optimizing risk of portfolio**

### **Absract**

Diversification is a strategic method that investors use to optimize risk of portfolio. It is an opportunity by which investors move from micro-firm into macro-firm. The investors' aim is to make an optimal choice that leads to minimization of risk and maximization of return, but the methods that lead to these objectives are not easily achieved. The purpose of this paper is to propose a method to minimize risk of portfolio. Firstly, this paper investigates the risk reduction strength of each asset and secondly, it explores the impact of each asset in minimizing risk of portfolio. The assets allocations divulge by Black Litterman model are used to estimate risk of both portfolios and assets. We explore DataStream (Yahoo finance) of Gold, Oil and Natural gas which spans from January, 2010 to September, 2016. It is observed that investing on Gold minimizes higher risk and achieve more benefits than other assets in the portfolio. In view of these facts, it means diversifying in gold acts as hedge/safe haven for investors during economic crisis.

### **Keywords**

Asset; Black Litterman; Diversification; Investment; Portfolio; Return; Risk