Relationship between Risk and Return in Colombo Stock Exchange:
A Beta Sorted Portfolio Approach

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This paper attempts to examine the risk and return relationship in Colombo Stock Exchange (CSE). The sample composed of 53 listed companies in the CSE which have at least 200 trading days per year. The sample period spans 2005 January to 2015 September. Initially, we run an Ordinary Least Squares to determine the beta coefficient of each company. Based on beta we formed three portfolios as 30th percentile low beta stocks, 70th percentile moderate beta and the rest is high beta stocks. Then, we examined the risk and return modalities of each portfolio. The findings very well establish a negative risk and return relationship of individual securities. However, High beta stock portfolio demonstrates high returns and vice versa. Importantly, we also observed significant differences in risk and returns among three portfolios.

Keywords: Beta; Portfolio; Risk and Return