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**CHAPTER ONE**

* 1. **INTRODUCTION AND BACKGROUND TO THE STUDY**

Portfolio management is a daunting task in practice and it becomes more challenging during a turbulent period. There are quick and unpredictable changes during economic crises. The associated volatility makes it difficult to predict the future turn of events clearly and can jeopardize investment. The current world pandemic, triggered by the outbreak of COVID '19, harms the economy around the world and particularly because of the lockdown on business activities. This is presently being extended by the fallout of the Russia-Ukraine war. Kollias, Kyrtsou & Papadamu (2013) believed that the general world market reacts to major events around.

According to McKelvie (2022) publication on the Live Science website, there were five worst financial disasters and recessions witnessed in the world between 1772 and 2009. The last of the five before the recent and ongoing crisis was the financial and global crisis of 2008. This started from the collapse in the real estate sector of the US economy and resulted in the fall of investment bank giant, Lehman Brothers and signaling the beginning of the global financial collapse. During this time, Northern Rock Bank in the UK witnessed ‘*the first run on a British bank in 150 years’* (O'Connell, 2017) and collapsed eventually. Other capital markets around the world experienced their share of the global meltdown.

In the UK, the situation is more compounded by the overlapping of Brexit on January 31, 2020, into the commencement COVID '19 wave in March 2020. *‘The COVID-19 pandemic prompted a historic shock to the UK economy, as measured by its* [*gross domestic product (GDP)*](https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/gdpandeventsinhistoryhowthecovid19pandemicshockedtheukeconomy/2022-05-24#gdp)*. This level of change in GDP has not been seen since ONS measurements began in 1955’* (Office for National Statics, 2022)*.*

The GDP fell by 19.4% before a gradual recovery and the economy has been affected by the continuous wave of the pandemic coupled with the impact of the ongoing war. According to Griffith, Levell & Stroud (2020), the impact also varied across industries. Therefore, the pandemic presents investment risk and opportunities

Hence, this research is focusing on the impact of the pandemic on portfolio selection and diversification in the UK. Also, this strategy will be compared with the period before the pandemic to confirm the effectiveness of the approach. Thereafter, the selected portfolio will be subjected to performance assessment with the use of some selected ratio.

* 1. **STATEMENT OF PROBLEM**

Since the outbreak of COVID 19 in 2020, there have been various empirical studies on the pandemic and its impact on the economy around the world. There are also researches on its impact on investment and portfolio management. However, the majority of the works were on the early days of the pandemic. According to WHO (2022), the daily confirmed cases of infection started dropping in the UK on January 10, 2022, by this time the weekly percentage decrease was -45.21% and almost all the Covid rules have been relaxed. This research, therefore, focuses on the extended two years period of the pandemic impact on portfolio management. Likewise, another study gap that shall be focused on is the construction of a portfolio to mitigate the volatility witnessed during the Covid in the UK.

* 1. **SCOPE OF STUDY**

The first of Covid lockdown in the UK started in March 2020 and that led to an unprecedented fall in the UK GDP according to ONS (2022). Therefore, this study will commence from March 2020 and shall cover two years period ending in February 2022. A further attempt will be made to compare the portfolio performance with a similar period (i.e March 2018 to February 2020) before the outbreak of coronavirus. The daily share prices within the period of review shall be fetched from the London Stock Exchange. Three assets shall be considered in this portfolio, stocks from FTSE 100 (five stocks shall be selected from five different sectors from the index), the UK 10yr Government Bond will be for fixed income assets while Gold shall represent commodity assets in this portfolio.

The means-variance approach of Harry Markowitz called Modern Portfolio Theory shall be deployed for the asset mix. Subsequently, the performance of the portfolio will be assessed with four performance ratios, Sharpe ratio, M-square, Jensen's Alpha, and Tracking error.

* 1. **RESEARCH AIM**

This research aims to assess the effectiveness of the assets combination strategy in diversifying the volatility witnessed during the COVID 19 crisis in the UK.

* 1. **RESEARCH OBJECTIVES**

The objectives of this research are to:

1. Examine the effect of portfolio diversification in hedging against the volatility witnessed during COVID 19.
2. Examine the impact of the pandemic on portfolio management in the UK.
3. Identify the impact of Gold as a hedging instrument in protecting investment portfolios against volatility during the pandemic.
   1. **JUSTIFICATION AND RELEVANCE OF THE STUDY**

COVID 19 is an unforeseen world pandemic that started in China and spread to the rest of the world. It is currently an ongoing health situation around the world, although, the daily infection reached its peak in the UK on January 3, 2022, according to WHO (2022). Therefore, the impact of the pandemic and associated economic crisis is still much around even though the lockdown has been fully relaxed. As earlier mentioned, this research is to focus on the impact of the pandemic for an extended period of two years which is longer than previous studies.

Also, this study will contribute to the already existing body of knowledge, particularly on how effective portfolio construction can mitigate against market volatility as a result of the crisis caused by the coronavirus pandemic. It will be of valuable relevance to the investing communities, investors (individuals and institutions), and portfolio managers alike, in the UK.

* 1. **ORGANISATION OF WORK**

This study is organised into chapters, the first chapter introduces this research along with its aim and objectives. Chapter two will focus on the review of existing literatures on this research. Thereafter, the method used in carrying out the research is discussed in chapter three. Chapter four is the presentation of the findings and analysis. Finally, chapter five presents the conclusion and recommendation of this research.