



ABSTRACT

Return and risk are important concepts of portfolio management that playing important roles in investment decisions. A method of assessing portfolio risks that has been widely used so far in Indonesian stock markets is the standard deviation method. The newest method which is being developed to assess the risks is called *Value at Risk* (VaR). *Value at Risk* is a method to determine risk of maximum loss that could happen in a portfolio of a given period and at a certain level of confidence under normal market conditions.

The objectives of this study were to test two methods of portfolio risks assessment, namely standard deviation and Value at Risk methods Historical Simulation. To test whether both methods obtained the same investment decisions, *coefficient of return* (CV) was calculated. The regression analysis of return portfolio for each of the two methods was carried out to test which one of the two risk assessment methods was the best.

The results from the calculation of *Coefficient of Variation* indicated that Value at Risk *Historical Simulation* and standard deviation were two different methods of risk assessment. Meanwhile, the results of regression analysis indicated that Value at Risk *Historical Simulation* at confidence level 99% was a more appropriate method to assess risks that could explain portfolio return.

Key words: standard deviation and *Value at Risk, Historical Simulation*.