ABSTRACT

Momentum is regarded as a strategy of investments, in every market and asset class. When applied to stock selection, momentum signifies the relative performance amongst stocks, and not about the overall trends in the market. This mechanism works irrespective of the broader market being in an upswing or downswing. Momentum is used as a powerful investment tool to identify securities expected to outperform the broader market. Momentum investing, which is still in its formative stage, if practiced diligently might offer even better opportunities for higher returns with lesser risk.

The thesis has empirically established the existence of momentum profits at the benchmark index level and also at the portfolio level. It further examined the various macroeconomic and firm-specific factors contributing to the momentum returns. The study verified the theoretical concept of decomposing momentum profits and empirically examined the contribution of the cross-sectional risk, the lead-lag effect and the time-series pattern in the Indian context. The study included momentum returns as the fourth factor and examined the Fama-French 3-Factor model and the Carhart 4-Factor model of asset pricing. The empirical analysis, in the Indian context, suggest that the large-cap stocks outperformed the small-cap stocks and the outperformance of growth stocks having a low book-to-market ratio over the value stocks are significant contribution of the study in designing trading strategies. The thesis also designed a Momentum Index comprising of stocks forming the CNX Nifty 50 and examined its performance against the benchmark index.

Based on the study and its findings, momentum is seen to be a powerful style of investment and asset allocation strategy. Adding momentum as a deciding variable while constructing portfolios leads to higher returns with less tracking effort relative to a core equity portfolio.

Key Words: Momentum, Capital Asset Pricing, Momentum Index, Investment Strategy