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Quality investing in the Indian stock market

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▼

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Abstract

Purpose

The purpose of this paper is to explore whether stock selection strategies based on four fundamental quality indicators can generate superior returns compared to overall market.

Design/methodology/approach

The sample of stocks comprises the constituents of BSE-500 index, which is a broad based index consisting of highly liquid stocks from all 20 major industries of the Indian economy. Portfolios are constructed on the basis of quality indicator rankings of companies and the returns of these portfolios are compared with the overall market. Excess returns on quality based portfolios are also determined using OLS regressions of quality portfolio returns on market, size, value and momentum factor returns.

Findings

The results suggest that two of the four quality strategies, namely Grantham Quality indicator and Gross Profitability have generated superior returns after controlling for market returns as well as common anomalies such as size, value and momentum. Combining value strategies with quality strategies do not yield any significant gains relative to quality only strategies.

Practical implications

For investors looking to invest in the Indian stock market for a long term, this study provides evidence on the performance of some fundamental indicators that can help predict long run stock performance. The findings suggest

This is the first such study to look into the performance of quality investing in the Indian stock market. As most quality investing studies have been focussed on developed economies, this paper provides out-of-sample evidence for quality investing in the context of an emerging market.

Keywords

- India
- Stock selection
- Investment analysis
- Quality investing

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