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RESEARCH ARTICLE

A STUDY ON COMPARISON OF INDEX RETURNS AND RETURNS OF PORTFOLIO CREATED USING EQUAL WEIGHTAGE INDEX METHOD

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ABSTRACT

The main aim of the study is to select a list of companies from the basic indices of NSE like Nifty50, Next50 and Small Cap 50, to create a portfolio of the companies with respect to the indices selected for the study which results in 3 different portfolios. Portfolio 1 represents 29 scrips selected from Nifty50, Portfolio 2 represents 30 scrips selected from the Next50 index, and Portfolio 3 represents 34 scrips selected from Small Cap index. After creating the portfolios, Each scrip under each portfolio will be invested with Rs.1,00,000, each scrip in each portfolio will be given equal weightage so the total investment will be Rs.29,00,000, Rs.30,00,000 and Rs.34,00,000, under Portfolio 1, 2 and 3 respectively. To prove the factor that the returns of the created portfolio has beaten the index returns the price data of all the scrips for the past 10 years were taken and the returns were computed for the portfolio year on year and from 2008 to 2018.

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INTRODUCTION

Every individual would have one objective in common that would be creation of montem of wealth and prosper in life. Building riches through the active income (salaried, business, or professional) is merely impossible, so it is important to create a passive income and that is making money to work for us rather we working for it, the best way to do so is parking money in best investment vehicle. The billionaires and value investors like Buffett, Graham, Hill, Jhunjhunwala, Damani showed the way to Capital Market (Stock Market) that people can travel to the destiny of creating riches. Individuals start believing that the best way to create a passive income is investing in stocks of the company. But every individual as investor has different techniques to invest and make money and none of the techniques can be claimed as never-failing technique. Market is purely inefficient that could be the only source to make money, investors grow more interest in knowing the various techniques to reach the objective either in mid or long term of investment. Most of the traditional investors have the attitude of selecting a company; invest in by buying the stocks of the company sit tight for long term. But there is a risk of losing the money, to prevent it is always better to create portfolio of companies and invest in that portfolio.

Following the traits of Greenblatt and Graham, we derive yet another technique to invest in portfolio of stocks.

Selection of Stocks: The companies are selected from the basic Nifty50 Index, Next 50 Index & Small Cap Index, and the basic determinant to select the stock is, the companies should have zero debt and minimum of 20% ROA for the past 10 years and a highest earnings yield, and the companies should have good basic fundamentals in regard to efficiency, profitability and liquidity of the companies. After cross checking the companies we arrived at the top list for each index which is been tabled in Table No. 1. The above table shows the comparison of real growth of investment in portfolio 1 with the growth of investment in Nifty 50 index. When considering the investment tenure of 2008-2018 for the total investment of Rs.29, 00,000 the total return in percentage id around Rs.4 Crores, which means the money, has got more than double on every consecutive year which is unbelievable, none of the investment alternative could have fetched such huge returns. On comparing with Nifty 50 index returns, for the same total investment of Rs.29, 00,000 across all index scrips and for the same 2008-2018 investment tenure the growth of the returns is only 163%, where the Rs.29,00,000 would have grown up to Rs. 76,27,000. More importantly, the returns are more constant and the portfolio returns is beating the market returns for all investment tenures. The basic understanding from the table is the returns are more surgical when you begin your investment early.

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Table 1. Table showing the selected companies for the various portfolios

serial numer	portfolio 1 (p1)	portfolio 2 (p2)	portfolio 3 (p3)
	nifty50 index	nifty next50 index	nifty small 50 index
1	adani ports	acc cements ltd	8k miles ltd
2	asian paints	ambuja cements ltd	apollo tyres
3	bajaj finserves	ashok leyland	ashok leyland
4	eicher motors	aurobindo pharma	atul auto
5	grasim ind	bel	beml
6	hcl	bosch ltd	bluestar
7	hdfc	britannia	bse
8	hdfc bank	colgate palmolive	capfis
9	hero moto corp	concor	cochin shipyard
10	hindalco ltd	cummins ind	exide ind
11	hul	dabur india	federal bank
12	indusind bank	dlf	gati
13	infosys	emami	hexaware
14	ioc	godrej	ht media
15	itc	havells	indian terrain
16	kotak bank	hinzinc	jamna auto
17	l&t	jsw steel	karur vysya bank
18	lupin	l&t fin	marico
19	m&m	lic housing finance	mastek
20	maruti	marico	mindtree
21	powergrid	motherson sumi	mmtc
22	reliance ind	mrf	moil
23	tatasteel	p&g	nilkamal
24	tcs	pidilite ind	quess
25	tecm	power finance	radico ind
26	titan ind	sail	rain ind
27	wipro	shree cements	sonata
28	yes bank	siemens	tata met
29	zee entertainment	sree transport & fin	tatasponge
30		suntv network	ttk prestige
31			tvS motors
32			v guard
33			vakarangee
34			vip ind
	total no. of scrips = 29	total no. of scrips = 30	total no. of scrips = 34

Table No. 2. Table Showing Comparison of Real Returns of Selected 29 Scrips form Nifty 50 Index with Real Returns of Nifty 50 Index

Selected 29 Scrips form Nifty 50 Index				
Investment Tenure	% Growth of Portfolio Returns	% Growth of Index Returns	Real Growth of Initial Investment Rs.29,00,000 (Values in Rs.)	Real Growth of Initial Investment in Nifty 50 Index Rs.29,00,000 (Values in Rs.)
2008-2018	1316	163	4,10,55,535	76,27,000
2009-2018	1130	147	3,56,74,410	71,63,000
2010-2018	465	100	1,63,71,042	58,00,000
2011-2018	360	88	1,33,55,866	54,52,000
2012-2018	289	101	1,12,70,506	58,29,000
2013-2018	203	82	87,78,919	52,78,000
2014-2018	107	40	60,16,598	40,60,000
2015-2018	59	27	46,20,702	36,83,000
2016-2018	44	28	41,68,141	37,12,000
2017-2018	14	12	33,02,445	32,48,000

Table No. 3. Table Showing Comparison of Returns Selected 29 Scrips form Nifty Next50 Index with real returns

Selected 30 Scrips form			Next 50 Index	
Investment Tenure	% Growth of Portfolio Returns	% Growth of Index Returns	Real Growth of Initial Investment Rs.30,00,000 (Values in Rs.)	Real Growth of Initial Investment in Next 50 Index Rs.30,00,000 (Values in Rs.)
2008-2018	861	248	2,88,21,354	1,04,30,572
2009-2018	717	301	2,45,24,029	1,20,24,010
2010-2018	798	172	2,69,39,249	81,50,281
2011-2018	320	152	1,26,10,251	75,72,957
2012-2018	295	202	1,18,54,291	90,71,504
2013-2018	218	132	95,54,029	69,55,409
2014-2018	108	72	62,28,603	51,58,735
2015-2018	57	44	46,95,767	43,08,679
2016-2018	39	45	41,78,740	43,43,427
2017-2018	11	9	33,21,156	32,61,789

Table No. 4. Table Showing Comparison of Returns Selected Scrips form Nifty Under50 Index with real returns

Selected 34 Scrips form	Under 50 Index				
Investment Tenure	% Growth of Portfolio Returns	% Growth of Index Returns	Real Growth of Initial Investment (Values in Rs.)	Real Growth of Initial Investment in Next 50 Index Rs.30,00,000 (Values in Rs.)	Changing Initial Investment
2008-2018	1256	101	3,39,01,345	50,28,727	25,00,000
2009-2018	1232	162	3,32,89,191	65,48,358	25,00,000
2010-2018	509	92	1,58,35,276	49,82,697	26,00,000
2011-2018	411	92	1,48,12,851	55,71,012	29,00,000
2012-2018	481	114	1,68,61,526	62,12,925	29,00,000
2013-2018	544	147	1,93,16,273	74,09,153	30,00,000
2014-2018	243	33	1,06,30,335	41,28,540	31,00,000
2015-2018	147	35	76,65,594	41,79,729	31,00,000
2016-2018	99	23	61,83,676	38,27,404	31,00,000
2017-2018	35	-2	44,63,758	32,39,516	33,00,000

Conclusion

On comparing the index returns with the portfolio returns the returns from the portfolio has outnumbered the index returns, so the screening of the stocks using Greenblatts ratios (ROA, ROCE, EY) and the portfolio constructed using the stocks will have a top performance.

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