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Topic of Research: Value Investing: An Empirical Study of the Indian Stock Market

Findings

It was found that value investing delivers higher returns compared to growth investing in the Indian equity market. Financial Indicators such as P/E and P/C have been found to be very useful for the investors whereas indicators such as P/B and EV/EBITDA were moderately successful, while Dividend Yield and ROA completely failed to generate higher returns. Although value portfolios have higher volatility than the growth portfolios in terms of standard deviation and beta, the value portfolios have higher values of indices like Sharpe Ratio, Sortino Ratio, Treynor Ratio and Jensen's Alpha compared to the growth portfolios. This signals a better risk-adjusted performance of the value portfolio. Similarly, the portfolio of smaller firms generates higher risk-adjusted returns compared to the portfolio of larger firms. A combination strategy using P/E, P/B, and P/C has been found to be very successful in delivering high returns. No significant difference is present in the value premium with one year holding period and two-year holding period. Significant size effect and value effect exist in the Indian stock market. A linear relation was found between the excess portfolio returns and the market beta. However, market risk premium of CAPM independently failed to fully explain the variation in stock returns. When the three-factor model was analyzed, the betas of three factors were able to fully explain the variation in excess portfolio returns. Adjusted R2 also improved while using Fama French Three Factor Model. Therefore, it was demonstrated that the three-factor model was better than CAPM at capturing the variation in stock returns.

1. **Summary of Abstract (only 2 Pages)**
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