

Title	Earning Excess Returns Through Trading Strategies: Testing of CAPM on CNX Nifty of National Stock Exchange of India
Publication Type	Book
Year of Publication	2014
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Series Title	IIFSTEG2014
Publisher	Maharani Lakshmi Ammanni College For Women
City	Bangalore

Abstract

Over a long period of time, many traders and portfolio managers have shown a keen interest in earning excess returns through different trading strategies. There has been a long debate whether financial markets are efficient or not, especially in the Indian context. If markets are efficient, there will not arise any arbitrage opportunities to take advantage of mispricing of securities. This paper intends to find out whether it is possible to earn excess returns in the Indian market by using any trading strategy and if it is possible, then which strategy is better. We take 30 companies out of 50 belonging to CNX Nifty and through data from Jan'2000-July'2014; we try to find whether one can earn excess returns from the market in the long run. We use Capital Asset Pricing Model (CAPM) to test for excess returns. The variable of our interest is the alpha or the intercept term while applying regression as stated under the CAPM model. For this, we take the return on the CNX Nifty Index as return on the market and the yield on 91-Day T-Bills as a proxy for the risk free rate. Our results show that the alpha is significant and we are able to generate excess return of 1.47% through momentum strategy and excess return of 0.74% through contrarian strategy. This also shows that momentum strategy is better in the long run than contrarian strategy in the context of Indian market.

Full Paper:

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