Assessing And Forecasting Stock Performance For Efficient Investment Decisions In Indian Economy

Abstract

Investment in the stock market is subject to market risk. The market is divided into sectors and segments. Each sector or segment has many stocks having different characteristics among its stocks. So, a comparison of various sectors and segments is essential to decide the optimum distribution of investment among sectors and segments. Market Risks are associated to sectors and segments. The risk then percolates to stocks belonging to that sector or segment. Therefore, the estimation of market risk is vital to make investment decisions. The performance of a sector depends on sector wise sensex. The performance of a stock is denoted by the stock price. Hence, forecasting of sector or segment wise sensex along with the stock price is also critical for an effective investment decision.

Before choosing stocks to invest in, investors must compare the performance of several industries or sectors so that the future performance of any stocks belonging to those sectors or segments can be assessed. Making any investment decision requires consideration of both company and industry performance. An investment decision needs to consider numerous elements which are internal or external to the organization. Several kinds of relationships exist between financial variables which can be included to structure the forecasting models effectively. The present study compares the sector specific sensitivity indices to understand the nature of stock price movement for each type of sector.

In order to achieve an efficient investment decision, this study has compared sector-wise and market capitalization segment-wise movements of sensex values and the overall performance of Indian stocks. It has assessed sector-wise and market capitalization segment-wise stock market forecastability. This study has developed different forecasting models for selecting sector-wise and market capitalization segment-wise most efficient ones. This research has also estimated the risk of investment by developing sector-wise and market capitalization segment wise volatility models. Various time series models and other statistical techniques have analyzed the data for meaningful conclusions.

Keywords: ARIMA, forecasting models, GARCH, risk, sector wise sensex, stock price, stock market performance, volatility.