




# The Momentum Puzzle: Navigating Risks for Potential Upside

Unlock the secrets of smarter investing with our latest insights into momentum strategies. Discover the strategy that turns price trends into gains.



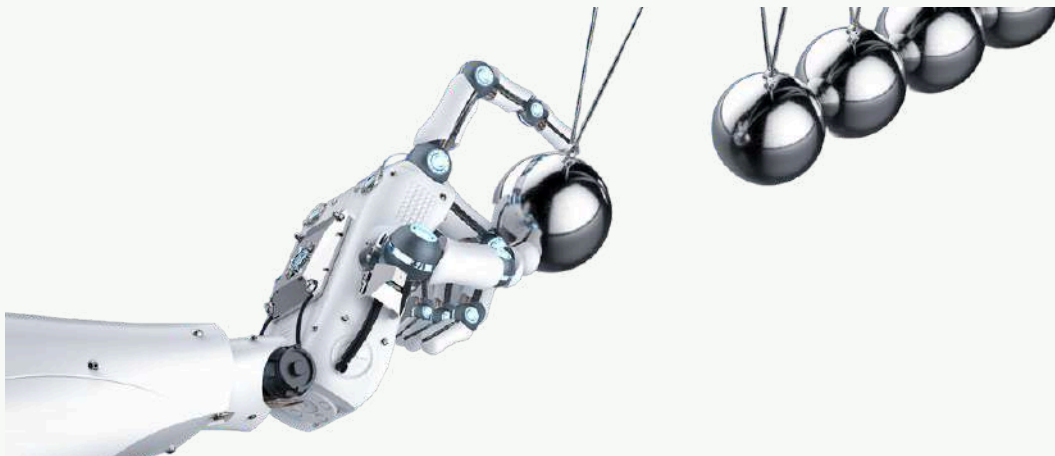
**Author:**  
Chandan BR; Mudit Jhunjunwala  
**With the guidance of:**  
Manju Mastakar, Managing Director

# INTRODUCTION

Momentum investing is a strategy predicated on the notion that stocks exhibiting strong price momentum in the recent past are likely to continue their upward or downward trajectory in the short term (Jegadeesh & Titman, 1993).

This investment approach is grounded in the belief that price movements reflect investor sentiments, asserting that:

***"Price is the king and the true reflection of investors' sentiments towards the stocks."***



# NIFTY MOMENTUM INDICES: THE WAY FORWARD

We explore investment opportunities within the Indian markets, particularly through factor-based investment strategies. Factor strategies aim to deliver risk-adjusted returns over the long run in a transparent, rule-based, and cost-effective manner. These strategies integrate the benefits of both active and passive investment styles by applying well-established stock-specific factors within a rules-based framework of passive investment (Baker, Bradley, & Wurgler, 2011).

**1300**

**Factor Based Equity  
ETF/ ETPs Listed  
Globally**

**\$1,483 Billion**

**AUM Managed**

The National Stock Exchange (NSE) of India has launched several factor indices including momentum over the last few years.

## **NIFTY200 MOMENTUM 30 INDEX**

This index aims to track the performance of the top 30 companies within the Nifty 200, selected based on their Normalized Momentum Score. The Normalized Momentum Score for each company is determined based on its 6-month and 12-month price returns, adjusted for volatility (Nifty Index Methodology).

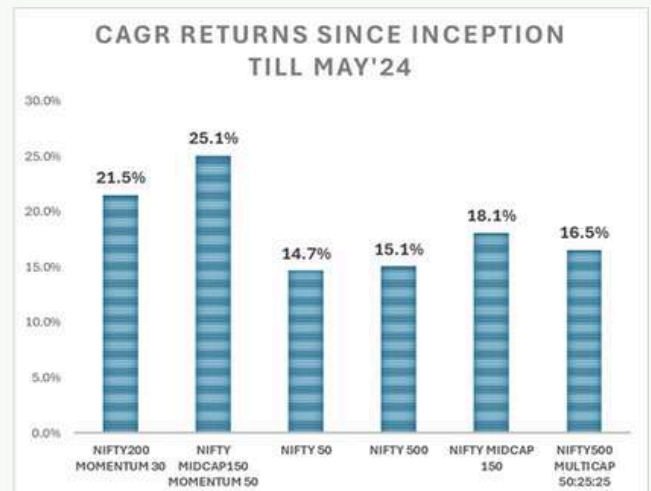
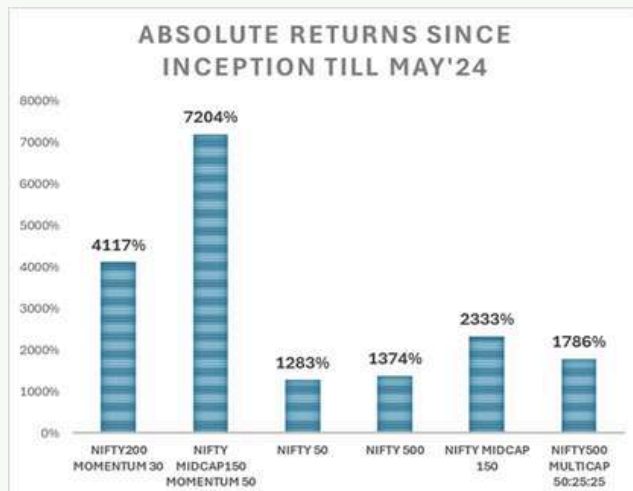
## **NIFTY MIDCAP150 MOMENTUM 50 INDEX**

This index tracks the performance of the top 50 companies within the Nifty Midcap 150, selected using the similar Normalized Momentum Score methodology as the Nifty200 Momentum 30 Index.

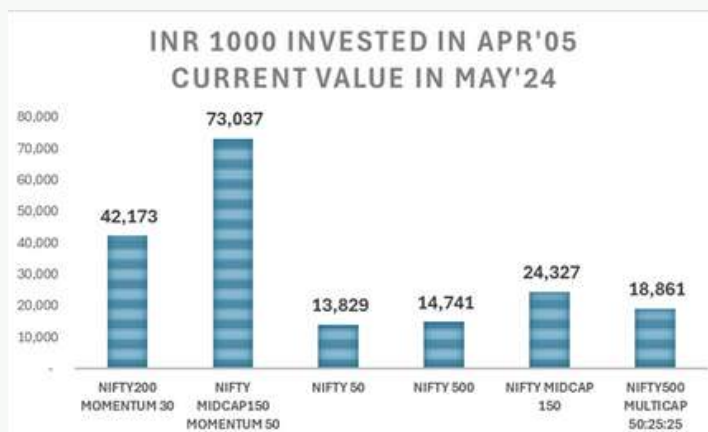
# PERFORMANCE REVIEW- RETURNS

Over the past two decades, the Indian stock market has witnessed significant growth and volatility, offering investors a mix of opportunities and challenges. Amid this dynamic landscape, several strategies have performed strongly, with momentum indices particularly delivering notable results. The Nifty200 Momentum 30 and Nifty Midcap150 Momentum 50 indices have consistently surpassed other benchmarks by concentrating on stocks with strong recent price momentum.

To illustrate this, here are the absolute returns of various Nifty indices since April 2005:



A starting investment of ₹1,000 in April 2005 would have grown to ₹42,173 in the Nifty200 Momentum 30 Index and to ₹73,037 in the Nifty Midcap150 Momentum 50 Index by May 2024. In contrast, the returns from traditional indices such as Nifty 50, Nifty 500, Nifty Midcap 150, and Nifty500 Multicap 50:25:25 have been notably lower.



**21.5%** NIFTY 200  
MOMENTUM 30  
CAGR

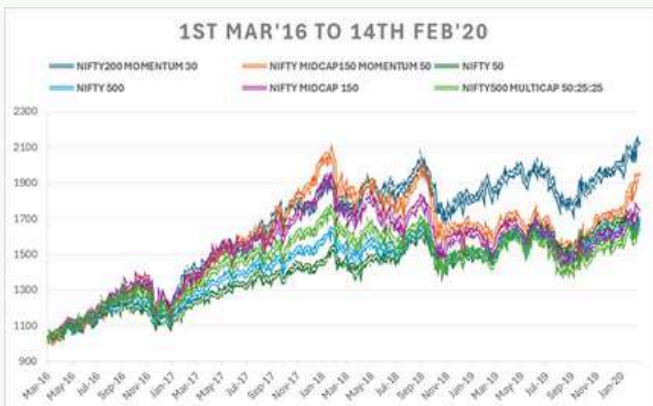
**25.1%** NIFTY MIDCAP 150  
MOMENTUM 30  
CAGR



# PERFORMANCE REVIEW- BULL MARKET

We have conducted a comprehensive analysis encompassing both bullish and bearish market conditions to ascertain the consistent performance of momentum indices over extended periods.

## Bullish Market Conditions Review



Bull Market Returns							
Time Period	No. of Days	NIFTY200 MOMENTUM 30	NIFTY 50	NIFTY 500	NIFTY MIDCAP150 MOMENTUM 50	NIFTY MIDCAP 150	NIFTY500 MULTICAP 50:25:25
1st Mar'16 to 14th Feb'20	1445	113%	68%	65%	93%	73%	62%
11th Jun'22 to 4th Mar'24	632	86%	42%	52%	93%	79%	62%

**113 %** NIFTY 200  
MOMENTUM 30

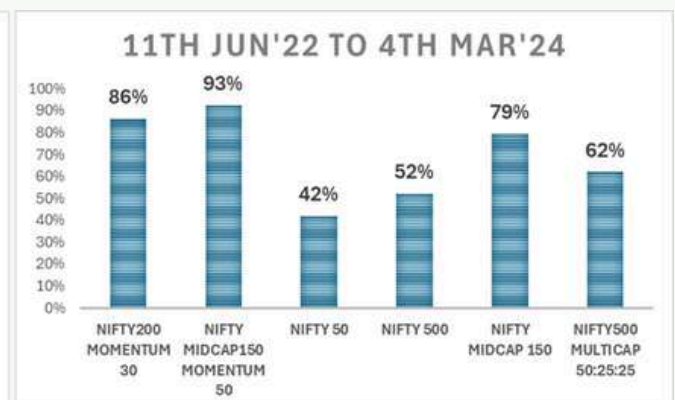
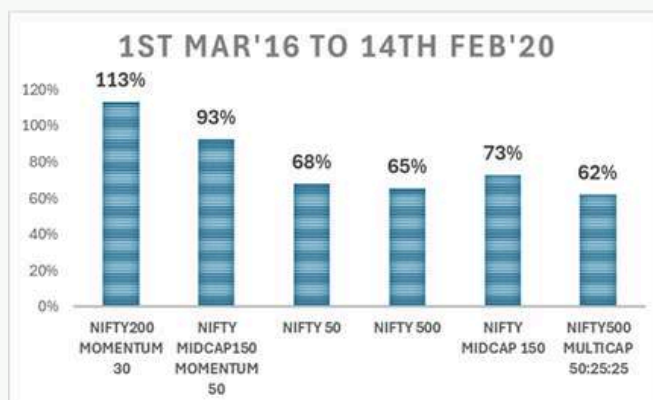
**93 %** NIFTY MIDCAP 150  
MOMENTUM 30

**68%** NIFTY 50

**73 %** NIFTY MIDCAP 150

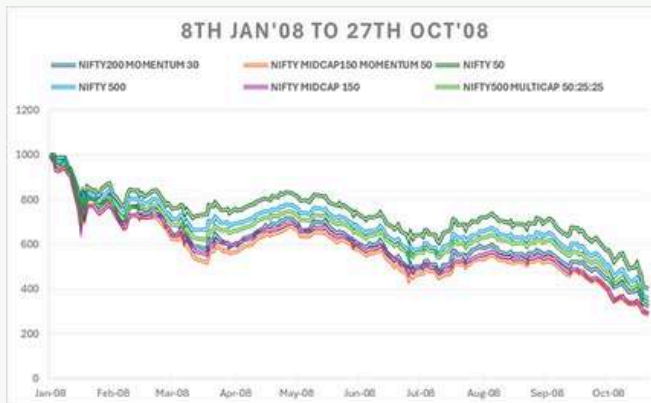
**65%** NIFTY 500

**62 %** NIFTY MULTICAP  
500



# PERFORMANCE REVIEW– BEAR MARKET

## Bearish Market Conditions Review



Bear Market Returns							
Time Period	No. of Days	NIFTY200 MOMENTUM 30	NIFTY 50	NIFTY 500	NIFTY MIDCAP150 MOMENTUM 50	NIFTY MIDCAP 150	NIFTY500 MULTICAP 50:25:25
8th Jan'08 to 27th Oct'08	294	-68%	-60%	-64%	-71%	-71%	-66%
15th Feb'20 to 23rd Mar'20	37	-34%	-37%	-37%	-36%	-38%	-38%

**-68 %** NIFTY 200  
MOMENTUM 30

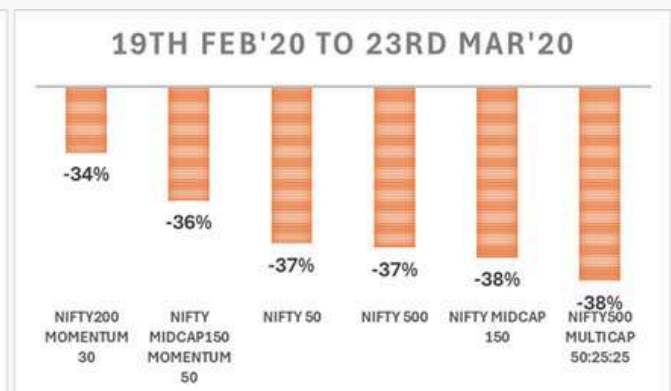
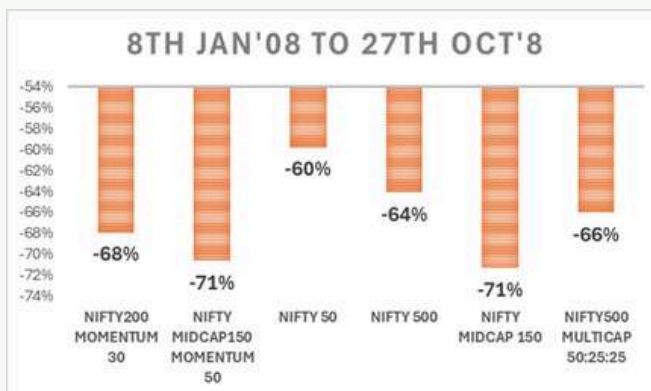
**-71 %** NIFTY MIDCAP 150  
MOMENTUM 30

**-60 %** NIFTY 50

**-71 %** NIFTY MIDCAP 150

**-64 %** NIFTY 500

**-66 %** NIFTY MULTICAP  
500

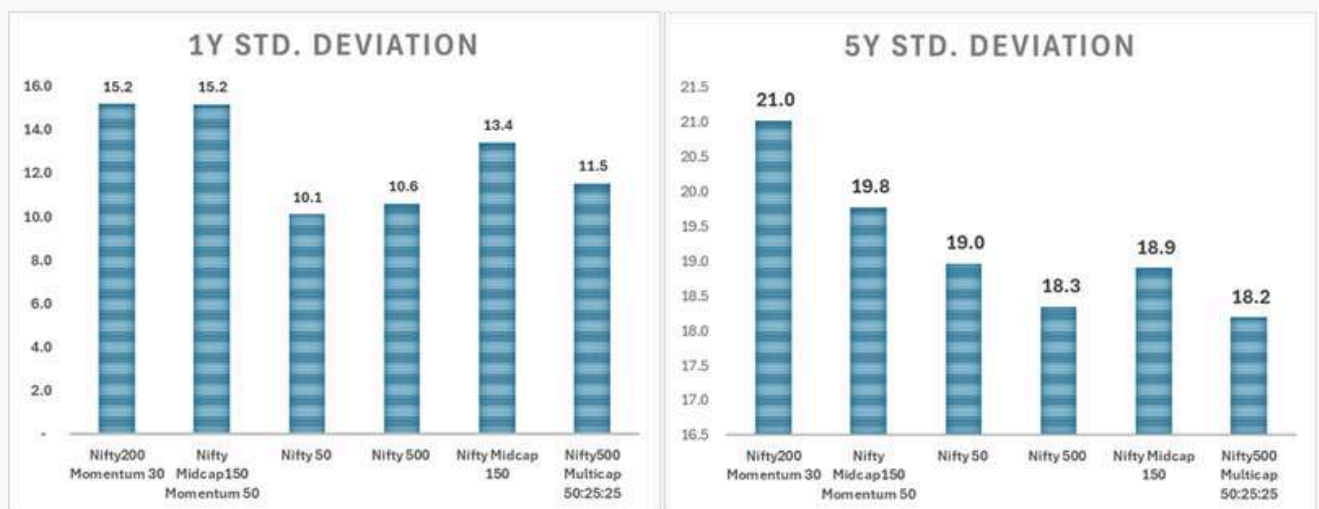


# RIDING THE RISKY WAVES

## VOLATILITY

Volatility refers to the degree of variation in the prices of stocks or indices over a specific period. It is a measure of the market's uncertainty and risk. In momentum investing, volatility plays a significant role as it reflects the rapid changes in price momentum that drive investment decisions. Momentum strategies can be more volatile than traditional investment approaches, as they rely heavily on short-term price movements.

Momentum indices often exhibit higher standard deviation due to the nature of their strategy, which can result in increased risk for investors who are sensitive to fluctuations in investment returns.



## OVERVALUATION

Stocks with strong price momentum may become overvalued, increasing the risk of a market correction or downturn.

## MARKET TIMING RISK

Timing entry and exit points in momentum strategies can be challenging, as momentum can shift quickly based on market sentiment.

# NAVIGATING MOMENTUM WAVES: SURFING SAFELY

Investing in momentum indices via Systematic Investment Plan (SIP) mode offers several advantages, particularly in terms of disciplined risk management and cost averaging benefits. SIPs allow investors to:



## Consistent Investing

SIPs promote regular and systematic investments, smoothing out market volatility by spreading the purchase cost over time. This strategy effectively mitigates the risks associated with short-term fluctuations in momentum stocks.



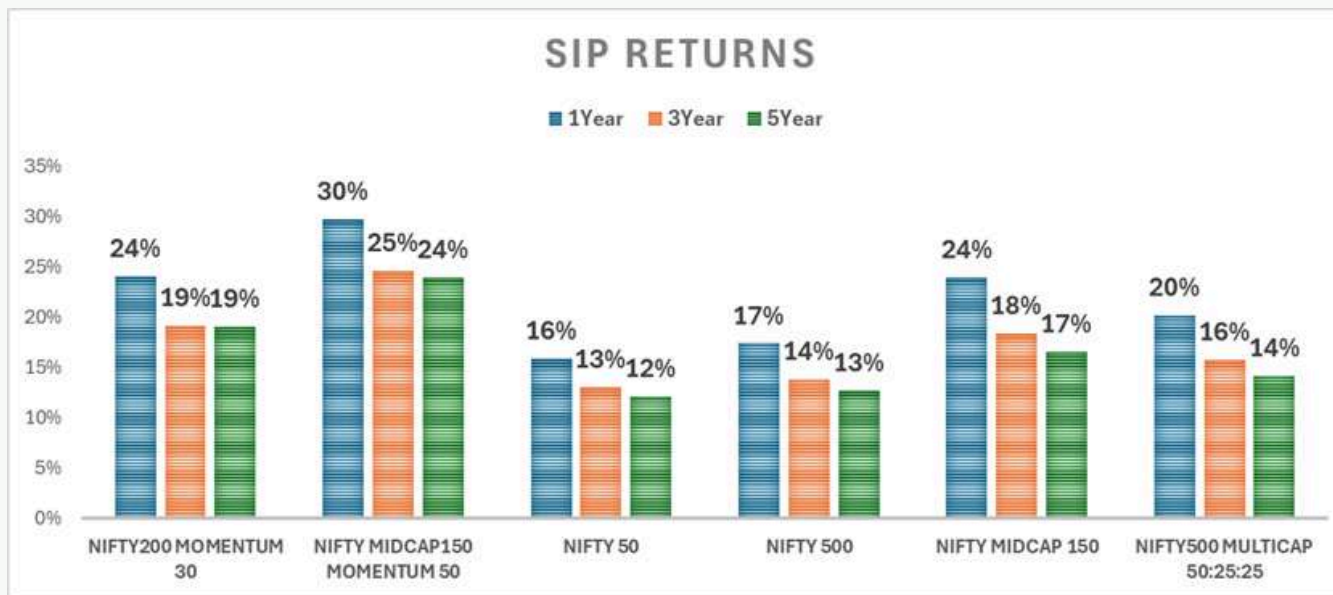
## Cost Averaging Benefit

By investing fixed amounts regularly, SIPs automatically buy more units when prices are low and fewer units when prices are high. This rupee-cost averaging strategy can potentially lower the average cost per unit over time, enhancing overall returns.

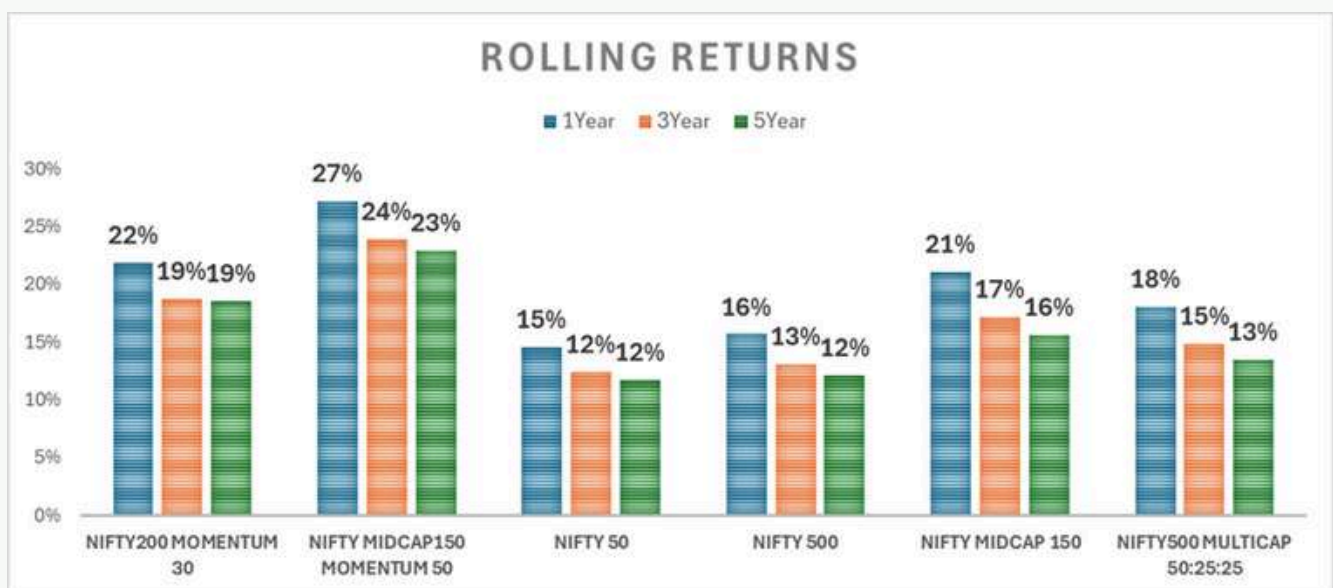


# PERFORMANCE REVIEW- SIP & ROLLING RETURNS

## SIP Performance Insights



## Rolling Return Insights



The combined analysis of SIP and rolling returns underscores the consistent growth and outperformance of NIFTY200 MOMENTUM 30 and NIFTY MIDCAP150 MOMENTUM 50 indices. The midcap segment shows promising returns, indicating its potential for enhanced investment outcomes and suitability for long-term investors seeking diversified growth opportunities.

# BEYOND THE HORIZON: MOMENTUM FOR THE MARATHON

An ideal investment horizon for Momentum strategies is typically 5 years and above, offering ample time to capture and capitalize on market trends while minimizing short-term fluctuations. Key considerations for long-term sustainability include:



## Diversified Allocation

We believe in diversifying across various mutual fund types such as Large Cap, Large & Mid Cap, Mid Cap, Small Cap, Flexi Cap, and Multi Cap funds, etc... alongside momentum strategies. This diversified approach enhances portfolio resilience against unpredictable market movements.



## Strategic Allocation

By strategically allocating investments across different fund types and momentum indices, investors can benefit from both stability and growth potential across various market conditions. This balanced approach aligns with prudent long-term financial planning, aiming to deliver consistent performance while managing risk effectively.

# SEIZING MOMENTUM: A CALCULATED APPROACH

Investors venturing into momentum strategies should carefully assess their risk tolerance and implement robust risk management practices to navigate the potential fluctuations in portfolio values. While momentum investing can offer opportunities for higher returns, prudent risk management remains essential for long-term investment success.

We believe that momentum investing can be a valuable addition to a diversified investment portfolio, provided investors are well-informed, prepared for volatility, and adopt a disciplined approach to risk management.

In essence, while momentum investing offers promising opportunities for substantial returns, it is crucial to integrate these strategies within a well-rounded, diversified portfolio. A disciplined approach, coupled with a focus on long-term horizons and diversified allocations, can maximize potential gains while managing inherent risks, ensuring sustained growth and financial success for investors.

# DISCLAIMER

Investing in equity markets involves significant risk, including the potential loss of your entire principal.

Past performance is not necessarily indicative of future results. Investors should carefully consider their investment objectives, risk tolerance, and financial situation before making any investment decisions. The content of this report does not take into account your individual financial circumstances, risk tolerance, or investment objectives.

The information provided herein is for informational purposes only and should not be construed as financial advice. This information is subject to change based on market conditions and other factors. Market trends and economic conditions can significantly impact the performance of investments. The data included in this report incorporates back-tested data presented by Nifty indices. Investors should use this data prudently, as back-tested performance may not necessarily reflect future performance. While efforts are made to ensure the accuracy of such information, its accuracy and completeness cannot be guaranteed. Any forward-looking statements or projections are based on assumptions that may not materialize. They are not guarantees of future performance and involve inherent risks and uncertainties.

## REFERENCES AND ADDITIONAL READING

1. Jegadeesh, N., & Titman, S. (1993). Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency. *The Journal of Finance*, 48(1), 65–91.
2. Baker, M., Bradley, B., & Wurgler, J. (2011). Benchmarks as Limits to Arbitrage: Understanding the Low-Volatility Anomaly. *Financial Analysts Journal*, 67(1), 40–54.
3. Cooper, I. J., Gutierrez Jr., R. C., & Hameed, A. (2004). Global Momentum Strategies. *The Journal of Portfolio Management*, 30(4), 45–54.
4. Ma, T., Liao, C., & Jiang, F. (2022). Factor Momentum in the Chinese Stock Market. *Journal of Empirical Finance*.
5. Rouwenhorst, K. G. (1998). International Momentum Strategies. *The Journal of Finance*, 53(1), 267–284.
6. Moskowitz, T. J., & Grinblatt, M. (1999). Do Industries Explain Momentum? *The Journal of Finance*, 54(4), 1249–1290.
7. Asness, C. S., Moskowitz, T. J., & Pedersen, L. H. (2013). Value and Momentum Everywhere. *The Journal of Finance*, 68(3), 929–985.
8. Index Methodology: <https://www.niftyindices.com/>
9. Index Factsheet: <https://www.niftyindices.com/>



**For more information  
about our various  
investment strategies,  
contact us today!**

**THANK YOU!**

**Phone :**

+91 8008253510

**Website :**

[www.armstrong-cap.com](http://www.armstrong-cap.com)

**Address :**

605, 5th Floor, Oxford House,  
RustamBaug, Old Airport Road,  
Bangalore

**Email address :**

[chandan@armstrong-cap.com](mailto:chandan@armstrong-cap.com)