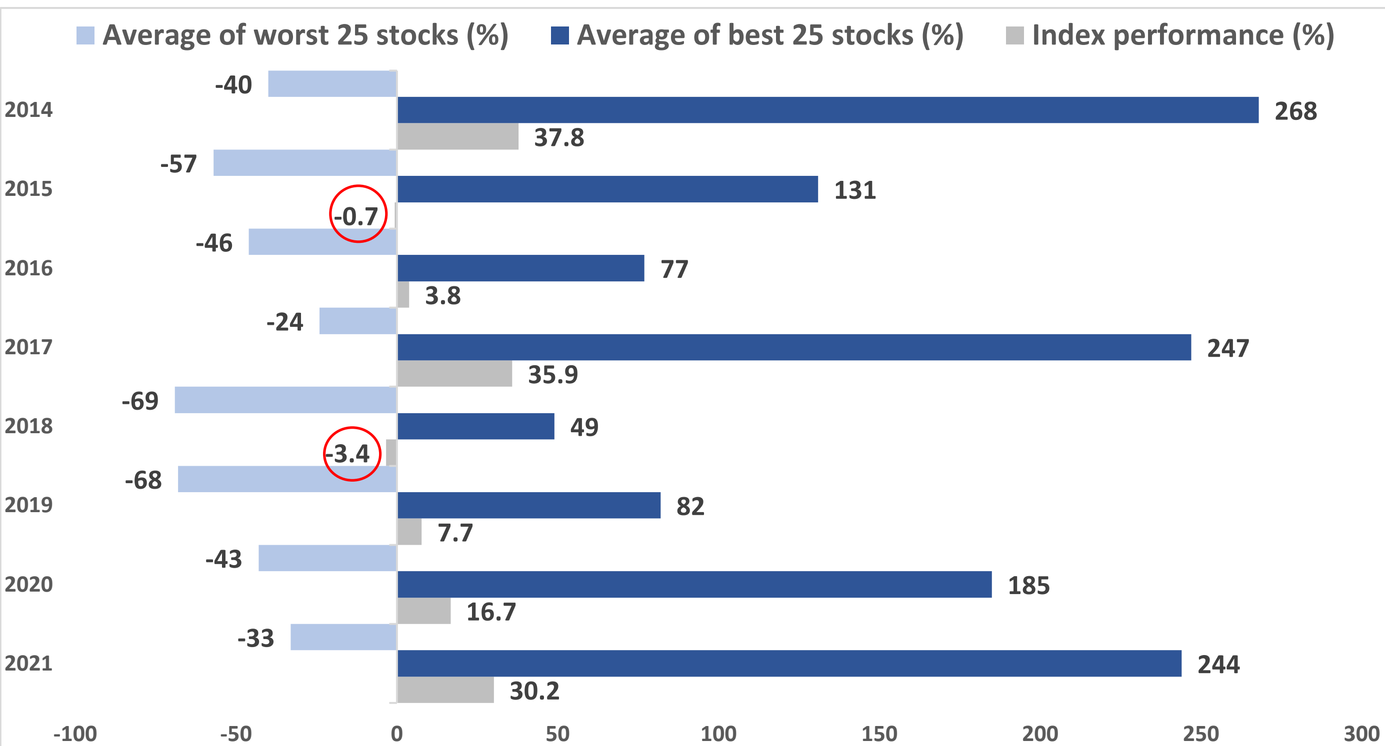
Focus on Dispersion of Stock Returns rather than Index Moves – *Jan 2022*

Most discussions about stock market are predominantly focused on the behaviour of indices such as the Nifty or NSE500.

Fascination about indices is understandable. It is a single number simplistically used as a proxy for the overall stock market. It has a long history, so people can relate to it. And of course, the media breathlessly reports on it.

However, the real drama in the markets is about wide dispersion of individual stock returns rather than index performance. And it is true almost in any given period.

Let us illustrate this point using data for the past 8 calendar years for NSE500 in the following graph:



Source: NSE
Performance of stocks is considered after they become part of the NSE500 Index

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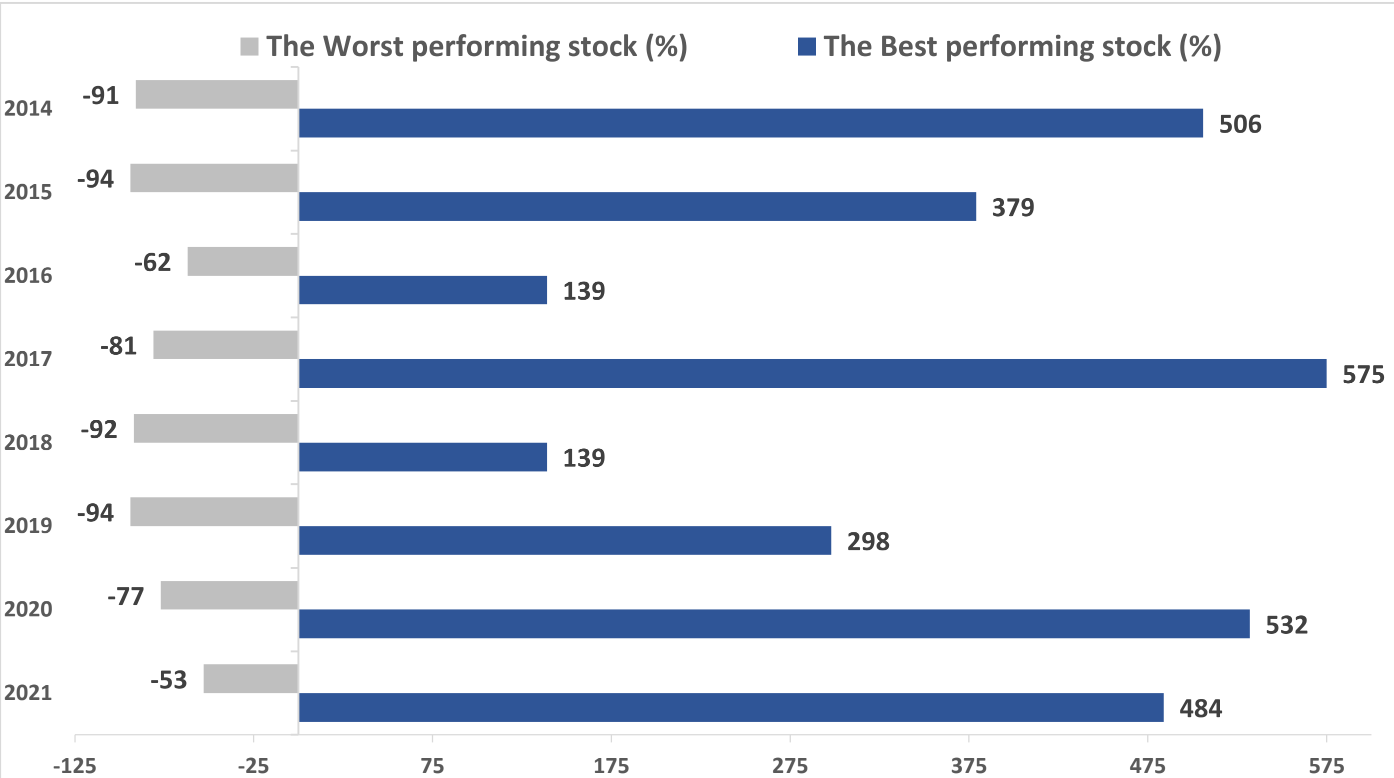
Below is the graph showing year-wise best and worst performing stock (%)



Source: NSE
Performance of stocks is considered after they become part of the NSE500 Index

Even a cursory glance at above graph will show you how in any given year (irrespective of what happens to index returns) there are stocks that perform spectacularly well and a few that do miserably.

At Girik Capital, our focus has always been on capitalising on this dispersion of individual stock returns, rather than worrying too much about how the indices might behave. Through robust investment processes we try to identify and buy potential winners and shun potential losers. The process is geared to try to generate significant outperformance irrespective of how the indices may behave in any given time period.

End