ABSTRACT

Stock prices are generally governed by rational inputs and irrationality in the market can cause only daily, weekly and short run fluctuations. While irrationality takes prices away from its intrinsic value, rationality brings it back. Contrarian investment strategy is followed under the assumption that typical herd behaviour leads to overreaction to information and hence stocks which have gone up recently is over valued or vice versa. By taking the opposite position, contrarian expects profit when the market turns rational. On the other hand, momentum investment strategy is followed by moving along with the tide. Here it is found useful to follow the crowd and be a part of it. But if market is efficient in pricing, then both these strategies will fail.

The present study is conducted to test the effectiveness of these two investment strategies in the Indian stock market. As a first step to this, the researcher tested the market efficiency of Indian stock market. Indian Market is found to be Weak-form inefficient and Strong form efficient. However, the study found out that momentum and contrarian strategies could not deliver any superior returns to Indian investors during the study period. Separate analysis was carried out by the researcher to test the efficiency of these tools, when Indian markets were severely hit by global financial crisis. Interdependency of Indian Stock Market with other leading emerging markets was also part of the study. The results confirmed the evidence of significant correlation with these markets. The study is expected to help Indian investors while taking various investment decisions.