

VOLATILITY AND CORRELATION OF STOCK INDICES ON INDIAN STOCK MARKET

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ABSTRACT

The concept of risk and return plays a vital role in the investment process, business organization, economic, political, and technological issues/problems. In the paper, three levels have been taken to measure the performance of the Stock Indices. In the first level, the Return (Log Mean), Risk (Standard Deviation), Skewness, Kurtosis and Value at Risk (VaR) have been calculated. In the second level, ranks have been allotted to the Stock Indices based on their return and risk performance using the performance Measures (Sharpe, Treynor, and Jensen). The correlation among the Indices performance has been calculated in the third level. Based on the analysis of results all the indices have been observed to be highly volatile in the year 2008-09, the indices VaR was also high in the year 2008-09.

Based on the performance measure results FMCG, Consumer Durables and Auto industry have been placed in the top position compared to all other indices. The indices of Metal, IT and Oil & Gas Industries were placed among the last positions on the basis of performance measure ratios. The Correlation results show that the IT industry and Tech industry have a high Positive correlation and Auto and Metal, Bank and Oil & Gas, Bank and Tech, Oil & Gas and Tech industries have a positive correlation on the basis of last seven years daily returns.

KEYWORDS: Value at Risk, Performance Measures, Individual Investors