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ALTERNATIVE STOCK INDEXING COMES TO INDIA

A Pune based start-up launches new stock index based on company fundamentals, providing investors one more vehicle to deploy money in stock markets

Pune, 31st may, 2009

'Sensex' and 'Nifty' need no introduction to any urban Indian or to any global investment professional. These are Indian Stock Market Indexes, and are treated as Benchmark Indexes, which all the investing community tracks. As is seen in majority indexes across the world, these indexes use Market Capitalization-based weight assignment to the constituent stocks.

Lately researchers have been working on many other alternative methods for index calculation. There are ethical, environmental, financial criteria used to build these types of indexes. With stock indexes being increasingly used as investment vehicle, the alternative indexes are meant to provide different ways to invest in a predetermined, focused portfolio.

For the first time in India, a Pune-based start-up, Desai Research Associates, has launched stock index based on company fundamentals. This index, named FINDX, which is computed since October 2005, is such an alternative stock index. This index is made of 50 best financial performers listed in the Indian Market, having highest revenue for the evaluation period. Many standard financial ratios such as Operating Profit Margin, Return on Net Worth are used to calculate individual stock weightage.

According to Abhay Desai, Principal Consultant at Desai Research Associates, this type of index clearly has more merits as compared to the current benchmark indexes when one studies risk-versus-returns chart of all these indexes.

Devoid of any statistical jargon, this Fundamentals-based Index provides better returns while comparatively lowering the risk of loss, an always-preferred situation for investors in the Stock Market. According to him, for the year 2008-09, while Sensex returned a loss of 37.94% and Nifty returned a loss of 36.19%, the Fundamentals-based index returned a loss of only 32.01%. Considering the current rally and improved sentiments, he pointed out that for the 5 months in 2009 ending on 31st May, Sensex returned a gain of 51.6% and Nifty returned 50.35%, whereas the FINDX returned 60.07%. In both these scenarios the Portfolio Risk of the FINDX was found to be lower by 10-12% than the benchmark indexes.



It is seen that the indexing based on Fundamentals has shown consistently better results, while lowering the volatility and risk in the investments. The index calculation methodology has been developed by Desai Research Associates and they offer multiple indexes based on it. According to Desai if one analyzes the index movements over a period; the Fundamentals-based Indexes are bound to disprove many concepts of Modern Portfolio Theory, which is extensively used by investing community to generate better returns on their investments.

Desai Research Associates plans to offer their new index series to Asset Management Companies for Index Funds and ETFs, as well as to other Portfolio Management Services to improve their investment yields in stocks. They are also planning to use the same methodology for other major stock markets in the world and offer index products to the investing community.

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About Desai Research Associates

Desai Research Associates (www.desairesearch.com) is a Pune based firm specializing in research activities in Finance and Economics. The proprietary Index Calculation Methodology developed by Desai Research Associates has culminated in construction of FINDX series of indices, purely based on Fundamentals of underlying stocks. At present the firm is concentrating on Indian and US Stock markets. Currently 17 indices are computed in 9 different currencies for Indian and US markets. The latest index values are available on www.desairesearch.com

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