Twitter Thread by Gordon Gekko

Gordon Gekko
@GordunGekko

A small thread on momentum investing and how I practice it.

I use the Nifty 500 universe for selecting my momentum stocks. Nifty 500, as the name suggests, has 500 companies in it. WRONG !!!! It actually has 501 companies. Yes, I double-checked ■ So, these 501 companies is

my talent pool (if you will) from which I select the 50 best candidates that I want to bet my money on.

Ok. So, exactly, did I go about doing that.

Step 1: Start with Nifty 500 universe (501 companies)

Step 2: Eliminate all those companies which have a listing history of

less than 1 year. This eliminated 25 companies (see table).

Step 3: For the remaining 476 companies, I computed their last 12-month rolling price returns (meaning, comparison of their price as on March 31, 2022 as compared to that as on March 31, 2021, and then computing the %

gain that each of those stocks have earned. I found out the following:

a) Average return of all the 476 companies was 43.27% (meaning if their average price as on March 31, 2021 was 100, then their average price as on March 31, 2022 was 143.27)

b) Out of these 476 companies

140 companies, gave a negative return.

c) Out of the balance 336 companies, 46 companies gave single-digit returns

d) Out of the balance 290 companies, 101 companies gave a return between 10-30%

e) Out of the balance 189 companies, 55 gave returns between 30-50%

f) Out of the balance 134 companies, 76 gave returns between 50-100%

g) The remaining 58 stocks gave 100+ % returns

Step 4: I selected 50 stocks with the highest returns.
Obviously these came from the category (g) mentioned above. In other words, out of the total 58 stocks

in (g), 8 were eliminated and the final 50 were selected.

These top 50 stocks had an average return of 253% (as compared to the average 43% that I mentioned above for the whole Nifty 500 universe) -- see table

Step 5: I deployed 2% of my capital each in these 50 stocks

Step 6: Now all I have to do is wait for 1 full quarter. I have bought right. Now I need to sit tight. Till June 30, that is.

Step 7: On June 30, I will repeat this whole exercise, by looking at the rolling 1-year

returns from June 30, 2021 to June 30, 2022.

Step 8: Those stocks that have got thrown out of the top-50 club, will be sold/ exited and the new ones that have entered the top-50 club, will be bought afresh.

Step 9: The weights of all the stocks will be re-adjusted back to 2%

each. Meaning, if say, during the April-June period, some stock has rallied 50%, then it's weightage would have increased from 2% of the capital (as originally deployed) to 3% of the capital. I will book the extra 1% of the profit, and bring its weightage down to 2%.

Similarly, if a stock has fallen by say 25%, it's weightage would have gone down from 2% to 1.5%. I will invest more in that stock and bring its weightage back to 2%.

The logic behind doing this is that, the fact that this stock (despite falling 25%) is still in the top-50

itself shows that the stock is still very much in "momentum" (except that it is going through a temporary rough-patch). So, in a crude-way, I am doing "value-investing" in this momentum stock by taking advantage of it's temporary bad form and averaging it down.

If the stock

recovers (and my hypothesis of its "temporary bad form" is proved right), I would have made good money. If however, the stock falls further and gets thrown out of top-50 club, I will exit it anyways.

Parting thoughts ==> If you have a decent capital, this is a very simple DIY

kind of investing that you can do on your own. All you need to know is 4th grade maths and tons of discipline. No need to pay any management fee to any fund manager/ PMS. I can safely assure you that, not only would you "handsomely" beat the best-of-best fund mgr out there

but you will also save on the "very handsome" fund-mgt fee that they would have charged you ■

Oh! and I forgot to mention another very important point. In addition to doing all this hardwork (which takes all of 30 mins once every 3 months ■), I also do a #Nifty FUT overlay

on top of my portfolio (using the same stocks as collateral...so no extra capital required), which helps me hedge the portfolio during major corrections, and also helps me to earn double income during bull phases.

I feel fairly confident that, a combination of these two

approaches... (a) momentum investing and (b) Nifty FUT trend following... should give me fairly superior returns, and more importantly, fairly superior "risk-adjusted" returns.

Hope the thread was useful.

Cheers!