Abstract

By

Sayantan Kundu

Finance and Control

Black-Litterman Model can use views that are generated endogenously from the data itself [Zhou (2009)]. We aim next in this thesis to create a framework through which asset mispricing can be exploited and modelled into a portfolio through endogenous view conditioning of BLM. The method is novel in its application of endogenous conditioning of BLM for Indian stock markets.

We implement short-term contrarian and momentum strategies through this methodology and find the resultant portfolios to outperform the broad based Indian market index CNX500. The superior performance can be attributed to combination of alpha (stock selection) and market timing for short term contrarian case and to market timing only for the case of momentum trading strategy. Net of transaction costs the portfolios outperform the market index as well as benchmark long-short zero cost (Rupee neutral) conventional contrarian and momentum portfolios drawn out of same set of stocks. A block-wise bootstrapping method and static sub-sampling tests are used for robustness and here too BLM portfolios show better risk adjusted return and lower VaR estimates.

We use daily data to show how powerful BLM can be in oli8ate ng on to 4(n 1 245.( )] iT-39(on a0