Investor-Aligned Dynamic Index (IADI) Framework

1. **Understanding the Core Problem**: **The Static Disconnect**

Traditional indices such as NIFTY 50 and SENSEX primarily reflect metrics like market capitalization and sectoral representation. While useful for assessing general market performance, they overlook the diversity of investor behaviour, financial goals, and risk capacity. Investors of vastly different profiles—young professionals targeting long-term growth, retirees seeking stability—are tethered to the same index benchmarks. This misalignment leads to inefficient decision-making and mismatched risk exposures.

In a country like India with over 120 million demat accounts, a one-size-fits-all model is inadequate. What investors truly need are benchmarks that align with their individual preferences and evolving economic conditions. The Investor-Aligned Dynamic Index (IADI) framework addresses this challenge by generating adaptive index structures tailored to each investor's profile and the prevailing macro regime.

2. **A Unique Approach**: **The IADI Framework**

IADI reimagines index construction as a modular, data-driven system. It shifts away from static index methodologies and instead produces personalized index slices by combining:

- Investor Signature Profiling
- Market Regime Detection using Robust Macro Indicators
- Smart Asset Mapping with Quarterly Rebalancing

3. **Methodology:** **From Inputs to a Custom Index**

Step 1: Capture the Investor Signature

Each investor completes a structured questionnaire or provides linked KYC/transactional data. The five scoring dimensions are:

Category	Example Question
Age & Life Stage	What is your age? Are you employed, self-employed, or retired?
Investment Horizon	How long do you plan to stay invested? (<3 yrs / 3-7 yrs / 7+ yrs)
Risk Tolerance	What would you do if your portfolio dropped 20% in value? (Sell/Hold/Buy)
Income Volatility	Is your income stable or unpredictable? Any foreseeable large expenses?
Financial Goals	Are you focused on capital protection, regular income, or long-term growth?

Based on responses, a **Risk Code** (e.g., A1, B2, C3) is generated, reflecting both risk capacity and investment intent.

Step 2: Market Regime Filter

IADI applies high-integrity macroeconomic and financial indicators, including:

- **India VIX** – Market volatility measure

- **RBI Repo Rate Trends** – Monetary policy stance

- **Core Inflation (CPI, WPI)** – Price stability metrics

- **Earnings Surprise Index** – Corporate fundamentals momentum

These indicators classify the market regime into:

- **Growth Phase**: Supports high-beta, cyclical, and midcap exposures

- **Volatility Phase**: Favors low-volatility, dividend-paying, and large-cap defensives

- **Stagnation/Disinflation**: Suggests barbell strategies or real asset tilts

Step 3: Smart Asset Mapping and Index Construction

Based on Risk Code and regime classification, IADI selects 10–25 stocks from the NSE 200 universe using:

- **Factor Scores**: Momentum, growth, quality, value, dividend yield

- **Sector Allocation Logic**: E.g., aggressive profiles prefer tech/consumer discretionary during expansion

- **Exclusions**: Remove sectors incompatible with the investor's objective (e.g., avoid cyclicals for retirees)

- **Weighting Strategy**: Inverse volatility or multi-factor weighted to control concentration risk

4. Quarterly Rebalancing: Aligning with Market and Life

IADI indices rebalance every three months. The rationale is two-fold:

- **Market Regime Updates**: Macro indicators are reviewed to detect shifts in economic cycles or policy risk.

- **Profile Validation**: Investors may update goals, income, or risk tolerance periodically.

Rebalancing Example Timeline:

| Quarter	Market Regime	Suggested Tilt	Index Action
Q1 FY25	Growth	Midcap and tech overweight	Add Zomato, reduce exposure to defensives
Q2 FY25	Volatility	Large-cap and low-beta focus	Remove Zomato, add ITC, SBI, and NTPC

Q3 FY25	Stabilization	Balanced momentum and value mix	Rotate into earnings-positive discretionary names

5. Benchmarking Against Global Innovations

MSCI's Risk-Control Indices and the S&P Conservative Growth Index apply volatility targeting and glide-path allocation, while NASDAQ's Risk-Managed Indices introduce rule-based tactical overlays. These frameworks focus on portfolio-level risk modulation.

How IADI Advances the Frontier:

- **Behavioural Personalization**: Unlike global indices that group investors by volatility bands, IADI uses investor-specific behavioural, demographic, and goal-based scoring.

- **Regime Responsiveness**: IADI integrates leading macro indicators, allowing more granular shifts in exposure than static drawdown thresholds.

- In **Indian Market Fit**: It reflects domestic realities—midcap alpha opportunities, regulatory nuances (e.g., SEBI norms), and inclusion of PSUs where relevant.
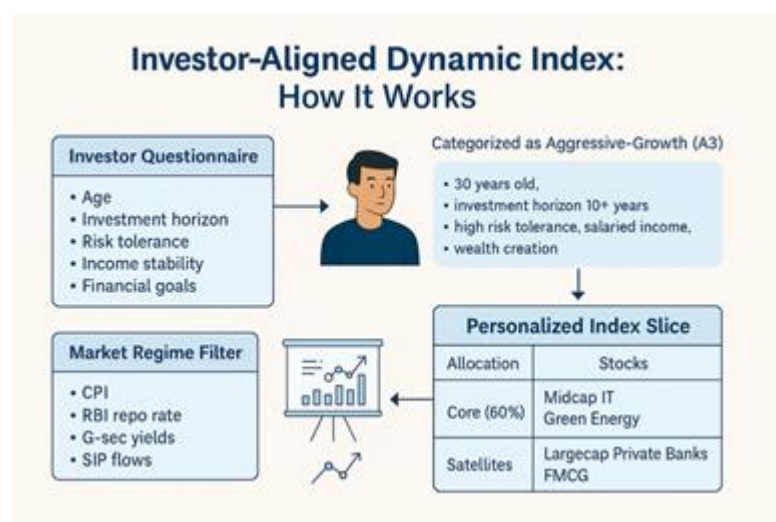
Conclusion: Redefining What an Index Can Be

The Investor-Aligned Dynamic Index (IADI) introduces a radical shift in the purpose and construction of stock indices. No longer confined to reflecting market averages, indices under the IADI framework become adaptive tools for investor alignment. By synthesizing behavioral inputs, macroeconomic trends, and portfolio construction logic, IADI creates meaningful, goal-oriented benchmarks.

For investors, it serves as a personalized reference point—providing a smarter benchmark to measure progress, construct portfolios, or power advisory platforms. For the industry, it opens up a new category of investable indices that align with the nuances of India's retail investing base.

By advancing beyond static templates and integrating adaptive intelligence, IADI positions itself not just as an innovation—but as the future of investor-centered indexing.