**Factor Allocation for Indian Equities**

We focus on allocation to the four factors in Cahart’s four factor model – market, size, quality and momentum.

For this, we will study how all of these factors perform in different macro-economic conditions and create rules to allocate optimally to each factor.

1. Market: The market factor aims to mirror the broader market performance and it’s performance should be very similar to investing in the BSE 500 index or the MSCI India Index. We study these two indexes carefully and try to understand their performance, and what impacts their performance in different market conditions.
2. Size: It is a well-known fact that a portfolio of small companies tends to outperform a portfolio of large companies for a long investment horizon. We study the market conditions in which this idea does not hold true
3. Quality: Quality identifies primarily undervalued companies and follows the idea that the market will eventually value them correctly which will lead to excess returns.
4. Momentum: Momentum is essentially the idea that a stock that has performed well in the recent past will keep performing well. Momentum is one of the most powerful factors to produce excess returns. We will study the conditions in which momentum does well and the conditions in which it does not do well.