

HOW MUCH DOES VOLATILITY INFLUENCE STOCK MARKET RETURNS? – A STUDY IN INDIA

MALVIKA SARAF

ABSTRACT

The premise of this paper is to evaluate the existence of the volatility anomaly, i.e., low volatility stocks achieve high average returns over time, for the Indian stock market. We examine the impact of measures like *beta*, *variance*, *relative beta*, and *relative variance*, on the expected stock returns for a cross-section of NIFTY500 companies, for the 10-year period July 2010 to June 2020. For a more comprehensive and vigorous study, we conduct several robustness checks by undertaking the same procedure on a rolling year basis for different subsamples of the 10-year data. We also consider the 6-month Covid pandemic phase from January to June 2020 to elucidate the role of risk and time on stock returns. Our empirical findings suggest that the volatility anomaly is predominant in a medium to long term (5 to 10 years), but it seems to be negligible for ultra-short and short time frames (6 months to 3 years). The overall findings suggest that volatility anomaly is strongly perceptible when time period considered is 3 years or more.

Keywords: Volatility anomaly; relative beta; relative variance