

3. SELECTION OF FMCG AND PHARMACEUTICAL COMPANIES TO MITIGATE THE RISK OF LOWER PORTFOLIO RETURNS IN THE BEAR MARKET

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Abstract

The present study examines the impact of selecting FMCG and Pharmaceutical companies as an investment, during the down swing of the Indian stock market. The objective of the study is to understand whether the selection of these companies help to manage the risks of bear market in terms of portfolio returns and minimise the volatility so as to protect the investors.

The study focuses on the CAGR of Total Returns (TR), as a variable measure to understand the impact. The data is collected from secondary sources. For analysing the data, Pearson's Chi-square Test is applied. The findings are depicted in the form of tables.

The study concludes that FMCG and Pharmaceutical sector is independent of the swings of the financial market. Therefore, selecting the companies belong to this sector in the downswing of the stock market, helps in profiting so as to mitigate the risks of diminishing portfolio returns.

Key words: FMCG and Pharmaceutical Companies, Bear Market, Total Returns

Introduction

In Bull Market almost all companies perform sound so selecting companies under investment portfolio becomes relatively easy. However, such selection becomes crucial in the bear market as they may turn to be devastating in terms of return on investment. At the same time, bear markets create opportunities. (John, 2004)

The rationale of the present study is to understand the significance of selecting FMCGs and Pharma companies to avoid the risk of diminishing returns in the bear market.

FMCG and Pharmaceutical Sectors: Companies belonging to these sectors are growth moderated companies. They are categorised as value companies. Their major asset is brand, which is not recognized in the balance sheet. Their Dividend Pay Out ratio is usually high. These companies are good value creators as they are able to rotate their capital faster.

In the present study, therefore, four companies from these two sectors are selected and analysed to prove their significance. The following study is in consonance with the current study and therefore it is relevant to be cited here.