

# Analysts' Rating Consensus

## How Reliable?

The color of equity markets has changed significantly over the past decade. Prediction of price movements in the stock market is generally believed to be a very difficult task. One of the strategies used by Fund Managers is the buy-and-hold strategy – relying on Fundamental Analysis, i.e. utilizing economic factors to estimate the intrinsic values of the securities, provided by Sell – Side brokers. A perusal of all recommendations made by broker analysts (for Nifty & its constituents over the past 5 years) reflects a rather poor strike rate.

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*September 6, 2013*

ANALYSTS' RATING CONSENSUS VS AUTOMATED ANALYSIS

**CNX Nifty**



**The color of equity markets** has changed significantly over the past decade. During the secular bull run of 2003-2008, the markets were flush with liquidity and there was broad based participation from many sectors contributing to rise in benchmark indices. Basically anything one touched turned to gold! So right from the star fund manager to the ordinary tea-stall owner on the street, everyone had an opinion on stocks and was invariably right!

However, during the last 3 years, men have been separated from the boys and proper stock picking has increasingly gained importance. Another interesting observance of the past few years is that while broader indices have been fairly flat, the internals have been markedly different. On one hand you have FMCG stocks trading at lifetime high valuations of 40 times (Price to earnings on a forward one year basis) and on the other hand you have capital goods / construction stocks trading at single digit PEs or PSU banks at one third their adjusted book value!

Investments in classic defensive counters like FMCG (ITC, HUL, Dabur, etc), Pharmaceuticals (Sun Pharma, Glenmark, Lupin, DRL, etc), IT - Software (TCS, HCL Technologies, Tech Mahindra, etc) have all given handsome gains, well in excess of debt returns also. This reflects the barbell sort of valuations inherent in the index. While the NIFTY might be at 5500 levels, many stocks within NIFTY are trading closer to 2400-2800 levels! Beaten down sectors like construction, capital goods, power, real estate etc. have lost as much as 80% from their peak whilst FMCG has seen a valuation re rating upwards of 30%.

**Prediction of price movements** in the stock market is generally believed to be a very difficult task. It is normally assumed that prices reflect all available information and only new information causes change in security prices. As arrival of new information is unpredictable, prices appear to be randomly generated. Consequently, it is not possible to consistently earn excess returns using available information. Thus, the best choice in the market is the buy-and-hold strategy, which consists of not trying to predict the price movements, i.e. buying and never sell the securities.

In practice, two approaches are commonly used to analyze price movements and consequently to predict future price trends. The first is the Fundamental Analysis, which utilizes economic factors to estimate the intrinsic values of the securities. The second approach, known as Technical Analysis, is based on the principles of the Dow Theory (Murphy, 1999) and uses the history of prices to predict future movements.

Fundamental analysis involves intensive research using either a top down approach or the bottom up approach. An analyst usually specializes in a sector and uses his knowledge to distill it in the form of revenue and profit projections (usually an excel model). He discounts future earnings at an appropriate discount rate or applies a multiple to earnings and thus arrives at what he feels would be the fair value estimate of the stock, to give it a **RATING**.

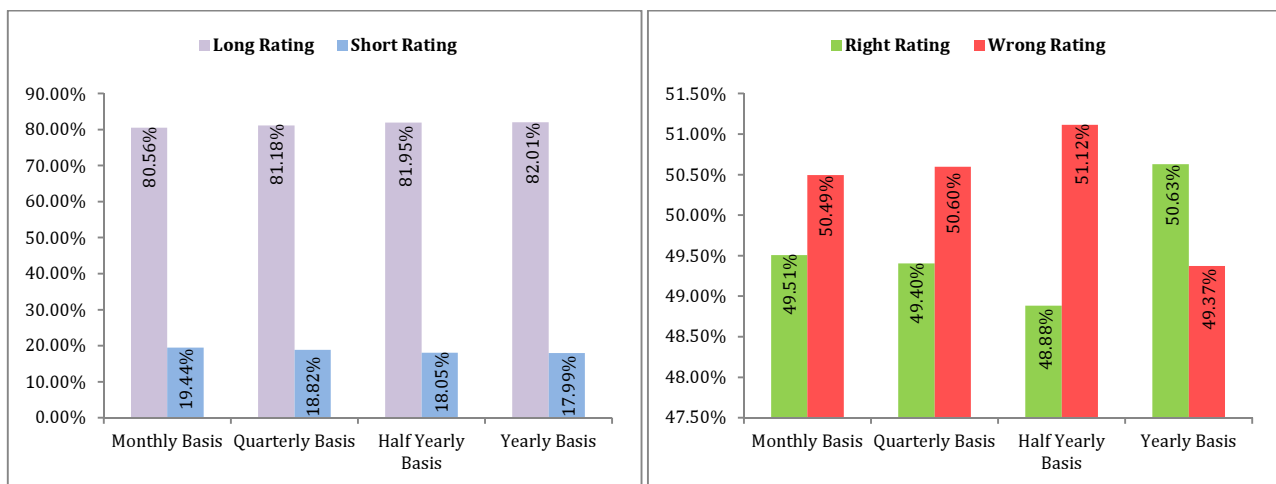
## ANALYSTS' RATING CONSENSUS VS AUTOMATED ANALYSIS

When times are good, every investment decision made looks good. Ordinary stock pickers may become star fund managers due to their higher strike rate, which has more to do with overall market buoyancy than anything else. Similarly, the sell side brokers' estimates would also be fairly accurate during that time frame as anything you touch would turn to gold. True stock picking and analytical skills are tested during a bear phase. Post 2007 crisis and melt down in stocks, still picking stocks was fairly easy for the next upmove as India was in a cyclical down turn thanks to Global meltdown. The pull back was fairly broad based as well.

### Analyzing Analyst Consensus

***So how does an investor benefit from this dichotomy? Unfortunately the sell side analysis has been of little help during this phase. Usually research estimates and investment calls lag the change in market dynamics by 3-6 months, by which time it is usually too late to act on their said decisions. A perusal of all recommendations made by broker analysts & the overall consensus (for Nifty & its constituents over the past 5 years) reflects a rather poor strike rate.***

We have analyzed the BUY, Accumulate, HOLD, Reduce & SELL analysts' rating consensus on Bloomberg & price change (for Nifty & all its constituents) on the last trading day of each calendar month for the past 60 months, from Aug 2008 to Aug 2013. We thereafter ran an analysis on a monthly, quarterly, half yearly & yearly basis, comparing the stock price movement against the rating given in the preceding month, quarter, half year & year. The graphs below clearly show the bias in giving a BUY / Accumulate / HOLD rating and consistency in inaccurate recommendation across all time frames.



Source: Bloomberg Consensus & Technidex Research

### Technidex Analytic models – Specialized Solutions

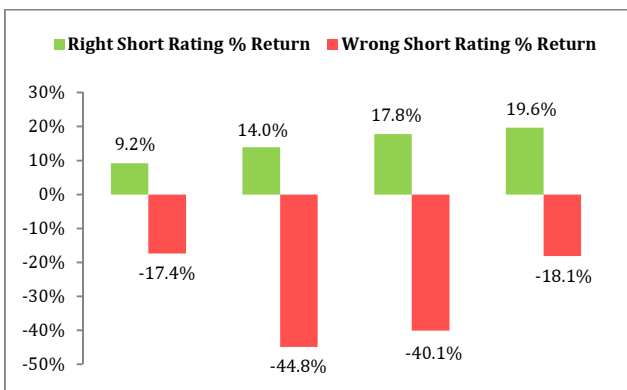
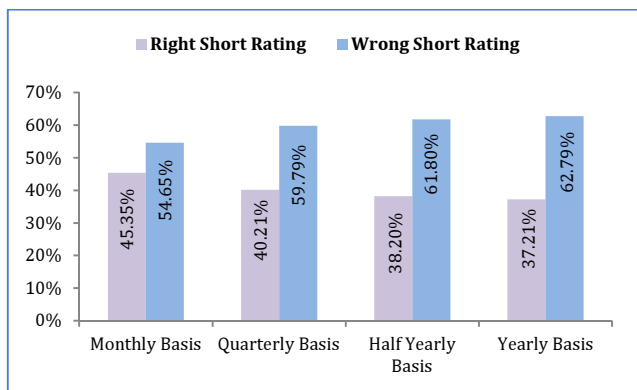
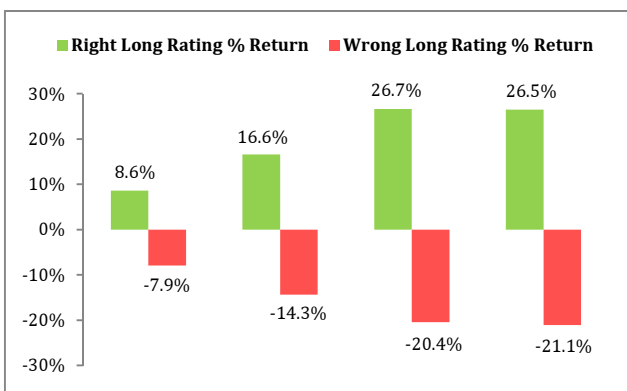
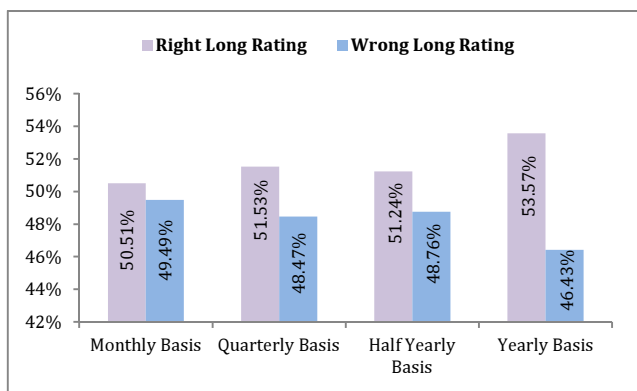
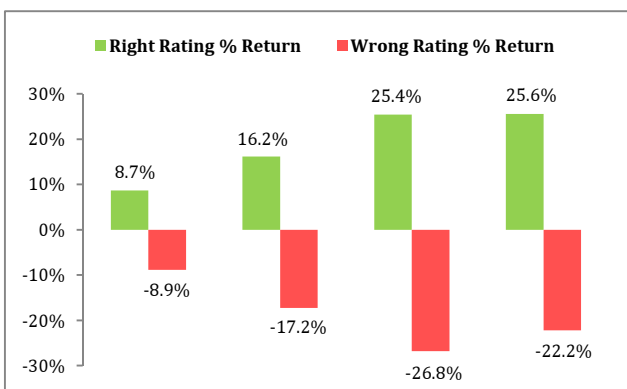
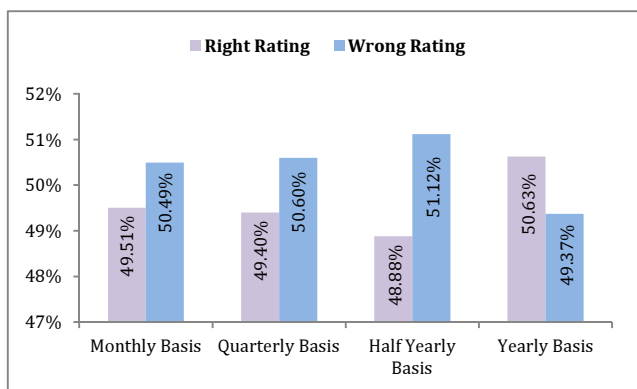
Technidex believes the market is superior to any individual or institution and knows everything. Our approach is analytic, using proprietary computer models to develop highly specialized automated solutions. Technidex Research does not directly use fundamental analysis. Our trading system is exclusively based on the historical daily prices and trading volumes. We have proposed a method that puts together tools that are really used in practice, with the purpose of investigating the feasibility of using an intelligent trading system in real market conditions. It has shown that our method has outperformed analyst consensus on all time frames & can achieve profitable results.

### Conclusion

Technidex's Analytic models will be helpful for an investor looking to invest in equity markets from a fairly active stand point. Our recommendations being totally system generated, remove any bias (fundamental and / or technical) which may hamper investor returns. It also removes "in house" bias in the sense that it will help investors avoid some stocks which broking firms "push" despite them knowing its valued differently, for various reasons like proprietary book position, investment banking deal etc. Also, it gives the investor a holistic picture about the whole market broken up index wise, sector wise and stock wise for both cash and futures.

### Scrip-wise analysis of Analysts' Rating Consensus

In fact, a perusal of data widely available in public domain (Bloomberg, Reuters) shows how flawed the consensus recommendations have been. And this is fairly consistent across time periods like monthly, quarterly and yearly. Also, there is a bullish (long) bias to most of the consensus ratings in India. We analyzed and compiled data for consensus (Sell Side brokerage firms) for their accuracy on ratings across different time periods, the possible return on their rating and sub divided that into BUY and SELL recommendations. Overall, at best case, analysts are right only half of the time or even lesser! That gives little confidence to a serious investor. Also, the net payoff (right recommendation percentage return versus loss) is also equally divided, hence negating risk reward for the client. One more interesting finding is that analysts are less accurate in their short calls than longs and the risk reward there is equally unappealing, to say the least.



Source: Bloomberg Consensus & Technidex Research

## ANALYSTS' RATING CONSENSUS VS AUTOMATED ANALYSIS

### Scrip-wise Monthly & Quarterly Summary

	Months	Right	Ave Return	Wrong	Ave Loss
NIFTY	60	50.0%	6.0%	50.0%	-4.7%
ABB	25	44.0%	10.6%	56.0%	-10.5%
ACC	60	43.3%	5.7%	56.7%	-8.2%
AMBUJACEM	60	36.7%	7.0%	63.3%	-7.7%
ASIANPAINT	16	56.3%	8.0%	43.8%	-5.3%
AXISBANK	53	50.9%	11.2%	49.1%	-7.4%
BHARTIARTL	60	46.7%	8.2%	53.3%	-7.3%
BHEL	60	56.7%	6.9%	43.3%	-7.4%
BAJAJ-AUTO	34	55.9%	5.9%	44.1%	-5.5%
BANKBARODA	16	37.5%	9.2%	62.5%	-9.5%
BPCL	60	48.3%	8.7%	51.7%	-7.5%
CAIRN	60	61.7%	6.0%	38.3%	-6.1%
CIPLA	60	61.7%	6.7%	38.3%	-5.5%
COALINDIA	22	45.5%	4.1%	54.5%	-5.4%
DLF	60	43.3%	12.9%	56.7%	-14.7%
DRREDDY	35	57.1%	14.0%	42.9%	-3.7%
GAIL	60	55.0%	5.6%	45.0%	-5.8%
GRASIM	49	51.0%	9.8%	49.0%	-7.5%
HCLTECH	60	50.0%	9.3%	50.0%	-8.9%
HDFC	60	55.0%	6.9%	45.0%	-6.0%
HDFCBANK	59	57.6%	7.1%	42.4%	-5.5%
HEROMOTOCO	59	62.7%	7.5%	37.3%	-8.0%
HINDALCO	60	43.3%	9.0%	56.7%	-12.3%
HINDUNILVR	60	56.7%	5.2%	43.3%	-6.2%
ICICIBANK	60	48.3%	11.3%	51.7%	-8.2%
IDEA	24	33.3%	10.9%	66.7%	-14.1%
IDFC	46	37.0%	10.6%	63.0%	-7.2%
INDUSINDBK	4	25.0%	10.6%	75.0%	-11.6%
INFY	60	55.0%	8.1%	45.0%	-6.8%
ITC	60	68.3%	5.5%	31.7%	-4.7%
JPASSOCIAT	46	34.8%	13.0%	65.2%	-10.2%
JINDALSTEL	50	44.0%	9.0%	56.0%	-8.3%
KOTAKBANK	40	60.0%	6.7%	40.0%	-6.6%
LUPIN	11	63.6%	7.1%	36.4%	-4.6%
LT	60	45.0%	8.5%	55.0%	-9.6%
M&M	60	61.7%	8.5%	38.3%	-7.7%
MARUTI	60	46.7%	8.8%	53.3%	-9.5%
NATIONALUM	13	30.8%	19.1%	69.2%	-12.5%
NMDC	4	25.0%	21.6%	75.0%	-8.0%
NTPC	60	40.0%	6.2%	60.0%	-5.5%
ONGC	60	48.3%	6.9%	51.7%	-6.3%
PNB	60	46.7%	9.3%	53.3%	-8.6%
POWERGRID	60	50.0%	4.5%	50.0%	-5.6%
RANBAXY	60	36.7%	11.7%	63.3%	-11.7%
RELCAPITAL	32	46.9%	14.8%	53.1%	-10.7%
RCOM	43	55.8%	13.2%	44.2%	-16.3%
RELIANCE	60	38.3%	16.4%	61.7%	-10.5%
RELIANCE	60	51.7%	7.5%	48.3%	-7.8%
RELPETRO	9	44.4%	25.4%	55.6%	-13.0%
RPOWER	42	54.8%	9.6%	45.2%	-12.6%
SAIL	48	29.2%	9.9%	70.8%	-12.1%
SBIN	60	45.0%	10.4%	55.0%	-7.1%
SATYAMCOMP	4	25.0%	2.3%	75.0%	-26.3%
SESAGOA	34	44.1%	9.8%	55.9%	-7.7%
SIEMENS	55	49.1%	8.5%	50.9%	-9.9%
STER	48	52.1%	11.4%	47.9%	-11.9%
SUZLON	29	44.8%	19.2%	55.2%	-16.4%
SUNPHARMA	60	65.0%	6.7%	35.0%	-5.6%
TATASTEEL	60	35.0%	14.9%	65.0%	-11.9%
TATACOMM	13	46.2%	9.7%	53.8%	-12.3%
TCS	60	58.3%	8.0%	41.7%	-5.5%
TATAPOWER	60	51.7%	6.6%	48.3%	-7.3%
TATAMOTORS	60	55.0%	9.9%	45.0%	-16.6%
UNITECH	25	56.0%	15.9%	44.0%	-26.5%
ULTRACEMCO	11	45.5%	1.7%	54.5%	-4.9%
WIPRO	55	49.1%	5.6%	50.9%	-9.7%
ZEEL	6	16.7%	28.3%	83.3%	-17.0%

Nifty Consensus has been derived based on the weighted consensus of constituents

Quarters	Right	Ave Return	Wrong	Ave Loss
20	60.0%	11.0%	40.0%	-10.2%
8	50.0%	19.4%	50.0%	-27.3%
20	35.0%	8.9%	65.0%	-15.3%
20	25.0%	13.6%	75.0%	-14.0%
5	40.0%	13.6%	60.0%	-9.9%
17	70.6%	11.0%	29.4%	-19.6%
20	35.0%	17.7%	65.0%	-10.2%
20	55.0%	15.1%	45.0%	-9.3%
11	72.7%	8.3%	27.3%	-14.4%
5	20.0%	20.7%	80.0%	-13.2%
20	65.0%	10.6%	35.0%	-16.5%
20	55.0%	13.8%	45.0%	-10.7%
20	55.0%	13.3%	45.0%	-7.7%
7	57.1%	5.2%	42.9%	-14.0%
20	50.0%	11.6%	50.0%	-39.2%
12	66.7%	32.8%	33.3%	-6.2%
20	45.0%	13.8%	55.0%	-8.4%
16	56.3%	23.9%	43.8%	-20.0%
20	70.0%	13.1%	30.0%	-37.7%
20	55.0%	16.9%	45.0%	-11.7%
20	55.0%	17.9%	45.0%	-9.0%
20	65.0%	15.2%	35.0%	-5.5%
20	35.0%	14.5%	65.0%	-27.0%
20	50.0%	10.5%	50.0%	-12.3%
20	55.0%	23.6%	45.0%	-17.5%
8	50.0%	14.6%	50.0%	-45.9%
15	33.3%	16.9%	66.7%	-12.7%
1	0.0%	0.0%	100.0%	-31.0%
20	60.0%	14.6%	40.0%	-11.2%
20	75.0%	11.0%	25.0%	-6.0%
15	40.0%	14.9%	60.0%	-21.2%
16	37.5%	12.2%	62.5%	-13.8%
13	69.2%	6.8%	30.8%	-17.0%
3	66.7%	17.0%	33.3%	-1.0%
20	55.0%	19.8%	45.0%	-17.6%
20	60.0%	24.2%	40.0%	-14.0%
20	45.0%	19.0%	55.0%	-15.7%
4	50.0%	28.8%	50.0%	-45.0%
1	100.0%	1.2%	0.0%	0.0%
20	45.0%	7.5%	55.0%	-6.9%
20	55.0%	12.5%	45.0%	-11.9%
20	45.0%	21.4%	55.0%	-13.1%
20	45.0%	8.8%	55.0%	-10.0%
20	20.0%	15.2%	80.0%	-21.1%
10	40.0%	49.1%	60.0%	-15.2%
14	50.0%	25.9%	50.0%	-22.7%
20	20.0%	55.4%	80.0%	-13.7%
20	50.0%	13.7%	50.0%	-11.5%
3	0.0%	0.0%	100.0%	-48.9%
13	53.8%	13.8%	46.2%	-24.5%
16	18.8%	13.0%	81.3%	-26.3%
20	35.0%	28.8%	65.0%	-11.3%
1	0.0%	0.0%	100.0%	-42.1%
11	54.5%	11.3%	45.5%	-15.9%
18	50.0%	14.5%	50.0%	-22.3%
16	56.3%	26.0%	43.8%	-23.9%
10	20.0%	71.6%	80.0%	-19.4%
20	75.0%	12.4%	25.0%	-8.0%
20	40.0%	29.4%	60.0%	-16.0%
4	25.0%	4.9%	75.0%	-8.6%
20	65.0%	16.6%	35.0%	-15.7%
20	50.0%	14.1%	50.0%	-14.2%
20	55.0%	15.9%	45.0%	-38.5%
8	37.5%	14.2%	62.5%	-64.9%
3	33.3%	0.5%	66.7%	-12.6%
18	50.0%	8.3%	50.0%	-25.5%
2	0.0%	0.0%	100.0%	-26.0%

Source: Bloomberg Consensus & Technidex Research

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## ANALYSTS' RATING CONSENSUS VS AUTOMATED ANALYSIS

### Scrip-wise Half Yearly & Yearly Summary

	Half years	Right	Ave Return	Wrong	Ave Loss
NIFTY	10	50.0%	20.0%	50.0%	-10.1%
ABB	4	50.0%	30.0%	50.0%	-55.7%
ACC	10	20.0%	4.8%	80.0%	-17.1%
AMBUJACEM	10	20.0%	13.5%	80.0%	-18.0%
ASIANPAINT	2	0.0%	0.0%	100.0%	-9.4%
AXISBANK	8	50.0%	22.0%	50.0%	-18.6%
BHARTIARTL	10	50.0%	20.8%	50.0%	-21.6%
BHEL	10	60.0%	24.3%	40.0%	-14.8%
BAJAJ-AUTO	5	60.0%	20.2%	40.0%	-8.6%
BANKBARODA	2	50.0%	10.1%	50.0%	-33.8%
BPCL	10	60.0%	17.4%	40.0%	-22.7%
CAIRN	10	60.0%	21.0%	40.0%	-17.7%
CIPLA	10	70.0%	18.1%	30.0%	-4.9%
COALINDIA	3	33.3%	5.1%	66.7%	-15.4%
DLF	10	40.0%	22.0%	60.0%	-58.7%
DRREDDY	6	83.3%	42.8%	16.7%	-3.2%
GAIL	10	30.0%	33.2%	70.0%	-9.4%
GRASIM	8	50.0%	34.7%	50.0%	-13.6%
HCLTECH	10	60.0%	21.2%	40.0%	-71.5%
HDFC	10	80.0%	17.5%	20.0%	-25.4%
HDFCBANK	10	70.0%	21.6%	30.0%	-13.1%
HEROMOTOCO	10	70.0%	21.1%	30.0%	-16.8%
HINDALCO	10	30.0%	9.8%	70.0%	-51.1%
HINDUNILVR	10	50.0%	12.5%	50.0%	-18.8%
ICICIBANK	10	50.0%	35.3%	50.0%	-17.0%
IDEA	4	25.0%	24.7%	75.0%	-44.2%
IDFC	7	42.9%	15.7%	57.1%	-22.8%
INDUSINDBK	0	0.0%	0.0%	0.0%	0.0%
INFY	10	70.0%	23.4%	30.0%	-23.1%
ITC	10	90.0%	15.6%	10.0%	-3.0%
JPASSOCIAT	7	28.6%	15.9%	71.4%	-26.9%
JINDALSTEL	8	37.5%	13.7%	62.5%	-20.3%
KOTAKBANK	5	60.0%	12.6%	40.0%	-8.6%
LUPIN	1	100.0%	36.1%	0.0%	0.0%
LT	10	50.0%	36.2%	50.0%	-21.6%
M&M	10	60.0%	43.4%	40.0%	-15.5%
MARUTI	10	60.0%	25.9%	40.0%	-10.1%
NATIONALUM	2	50.0%	46.2%	50.0%	-65.8%
NMDC	0	0.0%	0.0%	0.0%	0.0%
NTPC	10	40.0%	8.0%	60.0%	-8.0%
ONGC	10	40.0%	29.1%	60.0%	-14.4%
PNB	10	50.0%	36.9%	50.0%	-25.4%
POWERGRID	10	40.0%	4.9%	60.0%	-7.4%
RANBAXY	10	20.0%	8.3%	80.0%	-37.5%
RELCAPITAL	5	20.0%	147.3%	80.0%	-17.5%
RCOM	7	57.1%	30.2%	42.9%	-39.7%
RELINFRA	10	20.0%	84.7%	80.0%	-22.5%
RELIANCE	10	50.0%	15.9%	50.0%	-14.9%
RELPETRO	1	0.0%	0.0%	100.0%	-51.4%
RPOWER	6	50.0%	21.7%	50.0%	-37.5%
SAIL	8	25.0%	14.3%	75.0%	-43.6%
SBIN	10	50.0%	30.1%	50.0%	-20.4%
SATYAMCOMP	0	0.0%	0.0%	0.0%	0.0%
SESAGOA	5	40.0%	21.0%	60.0%	-9.5%
SIEMENS	9	55.6%	23.1%	44.4%	-48.3%
STER	8	37.5%	66.8%	62.5%	-26.3%
SUZLON	5	20.0%	130.5%	80.0%	-35.3%
SUNPHARMA	10	90.0%	20.0%	10.0%	-30.9%
TATASTEEL	10	40.0%	49.5%	60.0%	-25.3%
TATACOMM	2	50.0%	2.5%	50.0%	-24.3%
TCS	10	80.0%	35.2%	20.0%	-23.3%
TATAPOWER	10	30.0%	30.3%	70.0%	-13.1%
TATAMOTORS	10	50.0%	31.7%	50.0%	-76.6%
UNITECH	4	25.0%	7.8%	75.0%	-131.7%
ULTRACEMCO	1	0.0%	0.0%	100.0%	-21.0%
WIPRO	9	44.4%	19.1%	55.6%	-51.6%
ZEEL	1	0.0%	0.0%	100.0%	-51.0%

Nifty Consensus has been derived based on the weighted consensus of constituents

Years	Right	Ave Return	Wrong	Ave Loss
5	80.0%	8.0%	20.0%	-7.4%
2	50.0%	13.4%	50.0%	-2.7%
5	0.0%	0.0%	100.0%	-24.8%
5	20.0%	7.4%	80.0%	-23.8%
1	0.0%	0.0%	100.0%	-15.6%
4	25.0%	47.0%	75.0%	-14.3%
5	60.0%	15.2%	40.0%	-30.8%
5	60.0%	27.9%	40.0%	-33.1%
2	100.0%	8.2%	0.0%	0.0%
1	0.0%	0.0%	100.0%	-27.1%
5	40.0%	58.8%	60.0%	-10.2%
5	60.0%	18.0%	40.0%	-10.9%
5	80.0%	16.0%	20.0%	-12.8%
1	0.0%	0.0%	100.0%	-28.5%
5	20.0%	28.8%	80.0%	-20.8%
3	100.0%	69.0%	0.0%	0.0%
5	40.0%	32.5%	60.0%	-13.8%
4	50.0%	37.6%	50.0%	-16.8%
5	80.0%	40.1%	20.0%	-27.5%
5	80.0%	12.2%	20.0%	-2.3%
5	80.0%	24.3%	20.0%	-0.2%
5	80.0%	33.6%	20.0%	-16.1%
5	20.0%	1.2%	80.0%	-27.7%
5	40.0%	15.2%	60.0%	-27.9%
5	60.0%	15.1%	40.0%	-10.8%
2	50.0%	11.8%	50.0%	-1.6%
3	33.3%	17.6%	66.7%	-38.0%
0	0.0%	0.0%	0.0%	0.0%
5	80.0%	20.5%	20.0%	-12.8%
5	100.0%	27.9%	0.0%	0.0%
3	33.3%	5.2%	66.7%	-46.2%
4	25.0%	31.1%	75.0%	-31.1%
3	66.7%	18.3%	33.3%	-14.9%
0	0.0%	0.0%	0.0%	0.0%
5	40.0%	18.3%	60.0%	-15.6%
5	100.0%	23.7%	0.0%	0.0%
5	80.0%	37.0%	20.0%	-12.5%
1	100.0%	10.8%	0.0%	0.0%
0	0.0%	0.0%	0.0%	0.0%
5	40.0%	14.6%	60.0%	-12.1%
5	60.0%	11.2%	40.0%	-15.5%
5	40.0%	57.5%	60.0%	-28.3%
5	20.0%	19.2%	80.0%	-10.7%
5	20.0%	16.8%	80.0%	-29.1%
2	0.0%	0.0%	100.0%	-31.2%
3	33.3%	49.0%	66.7%	-37.1%
5	40.0%	8.7%	60.0%	-30.6%
5	20.0%	11.4%	80.0%	-7.8%
0	0.0%	0.0%	0.0%	0.0%
2	100.0%	25.0%	0.0%	0.0%
4	50.0%	15.9%	50.0%	-28.5%
5	40.0%	41.4%	60.0%	-17.6%
0	0.0%	0.0%	0.0%	0.0%
2	50.0%	10.1%	50.0%	-26.7%
4	50.0%	14.5%	50.0%	-30.9%
4	25.0%	7.6%	75.0%	-16.9%
2	0.0%	0.0%	100.0%	-53.8%
5	80.0%	44.9%	20.0%	-19.1%
5	20.0%	23.2%	80.0%	-21.7%
1	0.0%	0.0%	100.0%	-21.2%
5	100.0%	39.3%	0.0%	0.0%
5	20.0%	24.6%	80.0%	-12.4%
5	60.0%	33.5%	40.0%	-66.4%
2	0.0%	0.0%	100.0%	-30.1%
0	0.0%	0.0%	0.0%	0.0%
4	75.0%	18.9%	25.0%	-16.2%
0	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg Consensus & Technidex Research

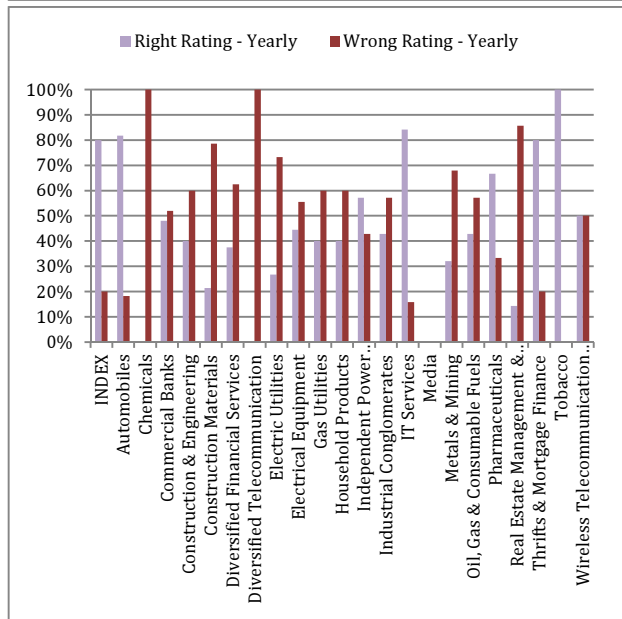
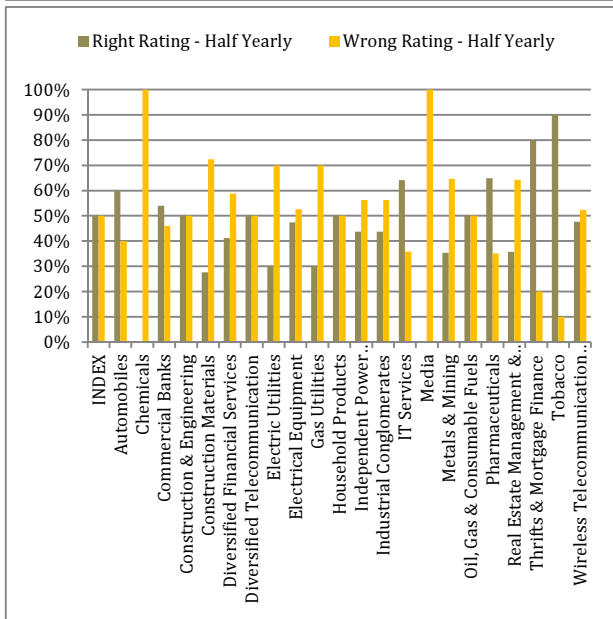
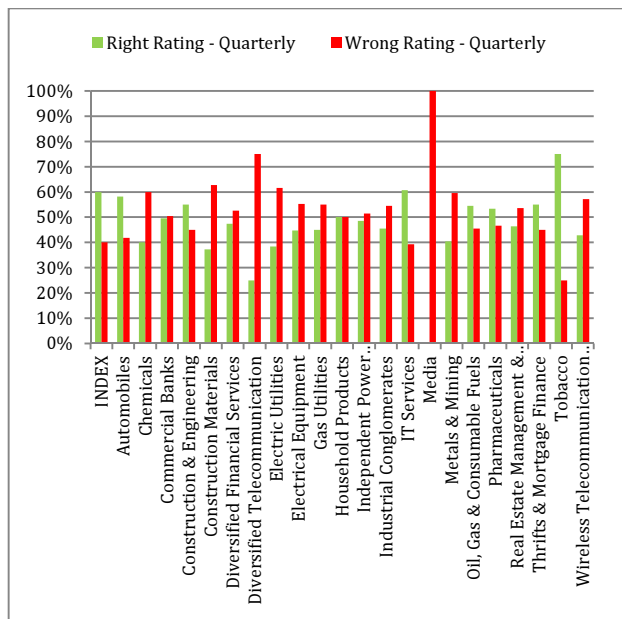
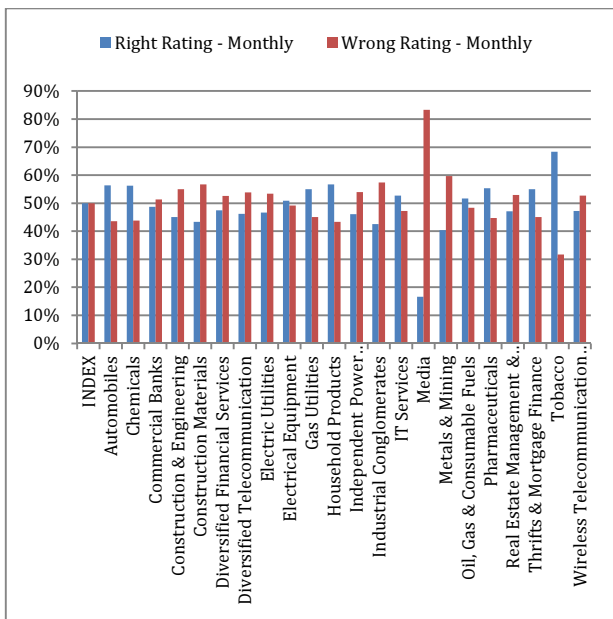
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### Sector-wise analysis of Analysts' Rating Consensus

We have further compiled sector-wise consensus on the basis of analysts' stock ratings as seen in previous page and summarized it in the charts below. Momentum plays a key role in analysts getting stock/sector calls right. For instance Metals sector has been consistently weak, yet due to Anchoring bias, analysts continue to have a lot of Long recommendations in it, and hence the recommendations tend to be more inaccurate than others and result in loss of capital. Sectors in a decent upswing similarly will have higher accuracy. On the flip side, the analysts may continue to have a BUY recommendation on FMCG when that sector correction starts and SELL metals at the bottom just when it picks up. This highlights the lag in trends which the consensus has and thus renders it ineffective to a reasonably active investor unless he is a pure BUY and HOLD investor.



\*Sectors based on Global Industry Classification Standard (GICS)



## ANALYSTS' RATING CONSENSUS VS AUTOMATED ANALYSIS

### Sector-wise Monthly, Quarterly, Half Yearly & Yearly Summary

GICS Sector	Total Ratings	Right	Ave Return	Wrong	Ave Loss	Total Ratings	Right	Ave Return	Wrong	Ave Loss
INDEX	60	50.0%	6.0%	50.0%	-4.7%	20	60.0%	11.0%	40.0%	-10.2%
Automobiles	273	56.4%	8.3%	43.6%	-10.0%	91	58.2%	17.0%	41.8%	-18.8%
Chemicals	16	56.3%	8.0%	43.8%	-5.3%	5	40.0%	13.6%	60.0%	-9.9%
Commercial Banks	312	48.7%	9.7%	51.3%	-7.6%	103	49.5%	19.7%	50.5%	-13.7%
Construction & Engineering	60	45.0%	8.5%	55.0%	-9.6%	20	55.0%	19.8%	45.0%	-17.6%
Construction Materials	180	43.3%	7.1%	56.7%	-7.7%	59	37.3%	15.7%	62.7%	-15.5%
Diversified Financial Services	118	47.5%	10.0%	52.5%	-8.0%	38	47.4%	19.0%	52.6%	-14.3%
Diversified Telecommunication	13	46.2%	9.7%	53.8%	-12.3%	4	25.0%	4.9%	75.0%	-8.6%
Electric Utilities	180	46.7%	8.5%	53.3%	-8.0%	60	38.3%	19.2%	61.7%	-12.7%
Electrical Equipment	114	50.9%	10.3%	49.1%	-10.7%	38	44.7%	22.8%	55.3%	-16.5%
Gas Utilities	60	55.0%	5.6%	45.0%	-5.8%	20	45.0%	13.8%	55.0%	-8.4%
Household Products	60	56.7%	5.2%	43.3%	-6.2%	20	50.0%	10.5%	50.0%	-12.3%
Independent Power Producers &	102	46.1%	7.9%	53.9%	-8.0%	33	48.5%	10.3%	51.5%	-13.1%
Industrial Conglomerates	101	42.6%	10.2%	57.4%	-10.1%	33	45.5%	14.7%	54.5%	-21.8%
IT Services	239	52.7%	7.8%	47.3%	-8.3%	79	60.8%	13.5%	39.2%	-22.5%
Media	6	16.7%	28.3%	83.3%	-17.0%	2	0.0%	0.0%	100.0%	-26.0%
Metals & Mining	317	40.4%	11.0%	59.6%	-11.0%	104	40.4%	19.3%	59.6%	-21.9%
Oil, Gas & Consumable Fuels	271	51.7%	7.5%	48.3%	-7.0%	90	54.4%	11.9%	45.6%	-15.2%
Pharmaceuticals	226	55.3%	8.8%	44.7%	-7.5%	75	53.3%	17.2%	46.7%	-13.5%
Real Estate Management & Devel	85	47.1%	14.0%	52.9%	-17.6%	28	46.4%	12.2%	53.6%	-47.8%
Thriffs & Mortgage Finance	60	55.0%	6.9%	45.0%	-6.0%	20	55.0%	16.9%	45.0%	-11.7%
Tobacco	60	68.3%	5.5%	31.7%	-4.7%	20	75.0%	11.0%	25.0%	-6.0%
Wireless Telecommunication Ser	127	47.2%	10.5%	52.8%	-11.5%	42	42.9%	20.2%	57.1%	-19.8%

GICS Sector	Total Ratings	Right	Ave Return	Wrong	Ave Loss	Total Ratings	Right	Ave Return	Wrong	Ave Loss
INDEX	10	50.0%	20.0%	50.0%	-10.1%	5	80.0%	8.0%	20.0%	-7.4%
Automobiles	45	60.0%	29.0%	40.0%	-30.7%	22	81.8%	28.8%	18.2%	-40.4%
Chemicals	2	0.0%	0.0%	100.0%	-9.4%	1	0.0%	0.0%	100.0%	-15.6%
Commercial Banks	50	54.0%	28.2%	46.0%	-20.1%	25	48.0%	32.3%	52.0%	-17.7%
Construction & Engineering	10	50.0%	36.2%	50.0%	-21.6%	5	40.0%	18.3%	60.0%	-15.6%
Construction Materials	29	27.6%	21.9%	72.4%	-17.0%	14	21.4%	27.5%	78.6%	-23.0%
Diversified Financial Services	17	41.2%	33.2%	58.8%	-17.8%	8	37.5%	18.1%	62.5%	-30.6%
Diversified Telecommunication	2	50.0%	2.5%	50.0%	-24.3%	1	0.0%	0.0%	100.0%	-21.2%
Electric Utilities	30	30.0%	31.1%	70.0%	-15.0%	15	26.7%	15.3%	73.3%	-16.8%
Electrical Equipment	19	47.4%	37.4%	52.6%	-31.2%	9	44.4%	24.3%	55.6%	-35.3%
Gas Utilities	10	30.0%	33.2%	70.0%	-9.4%	5	40.0%	32.5%	60.0%	-13.8%
Household Products	10	50.0%	12.5%	50.0%	-18.8%	5	40.0%	15.2%	60.0%	-27.9%
Independent Power Producers &	16	43.8%	13.9%	56.3%	-17.8%	7	57.1%	19.8%	42.9%	-12.1%
Industrial Conglomerates	16	43.8%	21.0%	56.3%	-36.4%	7	42.9%	11.4%	57.1%	-38.6%
IT Services	39	64.1%	26.0%	35.9%	-47.1%	19	84.2%	31.0%	15.8%	-18.9%
Media	1	0.0%	0.0%	100.0%	-51.0%	0	0.0%	0.0%	0.0%	0.0%
Metals & Mining	51	35.3%	32.5%	64.7%	-33.3%	25	32.0%	14.5%	68.0%	-25.0%
Oil, Gas & Consumable Fuels	44	50.0%	19.6%	50.0%	-18.4%	21	42.9%	24.1%	57.1%	-11.9%
Pharmaceuticals	37	64.9%	23.9%	35.1%	-26.8%	18	66.7%	38.9%	33.3%	-24.7%
Real Estate Management & Devel	14	35.7%	19.2%	64.3%	-83.1%	7	14.3%	28.8%	85.7%	-23.9%
Thriffs & Mortgage Finance	10	80.0%	17.5%	20.0%	-25.4%	5	80.0%	12.2%	20.0%	-2.3%
Tobacco	10	90.0%	15.6%	10.0%	-3.0%	5	100.0%	27.9%	0.0%	0.0%
Wireless Telecommunication Ser	21	47.6%	24.9%	52.4%	-32.7%	10	50.0%	21.3%	50.0%	-27.5%

\* Index Consensus has been derived based on the weighted consensus of constituents

\*Sectors based on Global Industry Classification Standard (GICS)

Source: Bloomberg Consensus & Technidex Research



**Question: What is the alternate option available?**

**Answer: Technidex Analytic models - Specialized Solutions**

Technidex believes the market is superior to any individual or institution and knows everything. The market is continuously telling marketmen what to expect in the coming days since price movement and change in volume pattern normally precede events & announcements.

Our approach is analytic, using proprietary computer models to develop highly specialized automated solutions. Technidex Research does not directly use fundamental analysis. Instead we focus on specialized technical analysis – Statistical Analysis. Our automated proprietary computer model tells us when the fundamentals change by notifying us of sudden spikes in volume and sudden changes in price.

The primary purpose for designing our automated, real-time analytic model is to present a price trend prediction technique and evaluate it according to its capability to generate profits. Our focus is predicting price trends in the stock market by using some common tools of technical analysis. Another aim of our model here is to propose a method to enable the system to be used to simultaneously analyze more stocks at a given point.

It is important to emphasize that common tools of technical analysis, like technical indicators, stop loss, stop gain and RSI filters, are commonly used by traders in practice, but they are usually ignored in academic research. This has motivated us to propose a method that puts together tools that are commonly used in practical trading, with the purpose of investigating the feasibility of using an intelligent trading system exclusively based on data derived from stock prices & volume of trades. To evaluate the capability of the proposed system in generating profits we compare its results to the profits that would be obtained by using a buy-and-hold strategy.

**Our Focus:** We focus on analyzing price – volume and other statistical data to determine the expected direction & trend of the indexes, sectors & stocks for trading, short & medium term. Once deduced, we decide which indexes, sectors & stocks should an investor stay long / short. We continue holding the position by staying long / short as long as the trend is intact rather than executing a large number of trades by entering & exiting at small gains. Our approach takes complete advantage of the trend rather than closing positions and booking small profits. Having said that, we follow our trend reversal indicators strictly, to ensure preserving capital.

**Performance Criteria:** There are a number of computational intelligence techniques applied to financial forecasting, however it is not clear for most of these works if the proposed techniques would be capable of generating profits in practice. Therefore, the main parameter adopted in our experiments for evaluating the performance is the profit obtained during the test period. A trading model is one that calculates the accumulated profit in the test period and then compares it to the buy-and-hold strategy. Thus, we keep adding / subtracting the profit / loss generated by each trade to arrive at the residual investment value and compare it with the Current Market Price (CMP). We also evaluate the results in terms of the percentage of correctly classified instances.

**Back – Testing:** Back-testing lets you test pre-built trading strategies under historical market conditions to determine whether certain scenarios would have worked well in the past. The idea is that if a trading strategy would have performed well previously, it may be worth considering today;

Our proprietary computer model has been successfully put through rigorous back-testing over long periods to test the success of the system and its analysis at different periods and in different market conditions.

Our trading system is exclusively based on the historical daily prices and trading volumes. We have proposed a method that puts together tools that are really used in practice, with the purpose of investigating the feasibility of using an intelligent trading system in real market conditions. It has shown that our method can achieve profitable results when tested on Indian stock indexes, large, mid & small cap stocks, global indexes, currencies & commodities.

## ANALYSTS' RATING CONSENSUS VS AUTOMATED ANALYSIS

### Analysts' Consensus Rating Performance VS Technidex Model Performance

	Consensus Profit / Loss Monthly	Technidex Profit / Loss on Short term	Technidex Performance against Consensus	Consensus Profit / Loss Quarterly	Technidex Profit / Loss on Medium term	Technidex Performance against Consensus	Consensus Profit / Loss Yearly	Technidex Profit / Loss on Long term	Technidex Performance against Consensus
NIFTY	1,112	4,469	302%	1,112	4,665	320%	1,112	6,323	469%
ABB	(46)	384	935%	97	459	375%	97	218	126%
ACC	(1,095)	1,028	194%	(1,095)	1,139	204%	(1,095)	694	163%
AMBUJACEM	(162)	80	150%	(164)	97	159%	(91)	149	263%
ASIANPAINT	153	183	19%	12	54	370%	(57)	118	308%
AXISBANK	418	930	122%	54	1,769	3176%	(72)	2,245	3203%
BAJAJ-AUTO	326	1,341	311%	260	1,262	385%	263	936	255%
BANKBARODA	(309)	(686)	-55%	(228)	338	248%	(171)	274	260%
BHARTIARTL	(120)	100	183%	(120)	(21)	468%	(120)	(265)	-55%
BHEL	41	271	566%	154	7	-95%	(34)	44	230%
BPCL	(46)	169	471%	(50)	79	260%	122	108	-11%
CAIRN	164	(78)	-76%	72	(107)	-63%	72	(5)	-94%
CIPLA	292	(128)	-77%	175	(100)	-73%	160	(10)	-94%
COALINDIA	(81)	23	129%	(76)	(95)	-20%	(100)	67	167%
DLF	(480)	1,022	313%	(656)	871	233%	(119)	700	689%
DRREDDY	1,714	30	-98%	1,714	250	-85%	1,714	362	-79%
GAIL	32	(391)	-52%	32	(394)	-52%	32	(307)	-52%
GRASIM	693	1,352	95%	400	3,845	861%	446	4,774	970%
HCLTECH	474	127	-73%	411	174	-58%	644	213	-67%
HDFC	250	(441)	-61%	250	(350)	-63%	250	(337)	-64%
HDFCBANK	339	13	-96%	339	(118)	-79%	339	(25)	-94%
HEROMOTOCO	1,179	2,072	76%	2,155	1,515	-30%	1,260	1,934	53%
HINDALCO	(191)	263	238%	(237)	207	187%	(138)	237	272%
HINDUNILVR	50	449	802%	(34)	340	1093%	(113)	408	461%
ICICIBANK	132	219	66%	132	1,441	993%	132	1,297	883%
IDEA	(93)	(7)	1313%	(60)	78	230%	8	45	442%
IDFC	(67)	179	367%	(85)	64	175%	(98)	216	321%
INDUSINDBK	(111)	34	130%	(161)	(78)	106%	0	24	0%
INFY	1,382	(812)	-73%	1,382	196	-86%	1,382	(755)	-74%
ITC	217	(41)	-86%	217	(34)	-88%	217	(164)	-70%
JINDALSTEL	(193)	648	435%	(300)	538	279%	(300)	658	319%
JPSOCIAT	(107)	159	248%	(118)	111	194%	(76)	96	227%
KOTAKBANK	311	(240)	-70%	(53)	(29)	81%	74	(136)	-61%
LT	(837)	1,614	293%	(140)	1,361	1072%	(140)	1,786	1376%
LUPIN	200	(79)	-78%	205	(159)	-70%	0	(147)	0%
M&M	495	411	-17%	495	620	25%	495	485	-2%
MARUTI	(1,092)	1,320	221%	(556)	1,154	308%	926	2,204	138%
NATIONALUM	10	107	997%	10	77	644%	10	81	676%
NMDC	(7)	(7)	-9%	1	27	1811%	0	34	0%
NTPC	(99)	(35)	187%	(19)	(47)	-59%	(11)	(164)	-93%
ONGC	(55)	(240)	-77%	(7)	(27)	-75%	(7)	(149)	-96%
PNB	(398)	1,558	491%	(62)	1,627	2726%	(51)	1,965	3965%
POWERGRID	(27)	(30)	-11%	(27)	12	144%	(27)	(83)	-68%
RANBAXY	(768)	809	205%	(1,014)	1,173	216%	(437)	820	288%
RCOM	(100)	416	516%	(146)	187	228%	(163)	364	324%
RELCAPITAL	8	1,050	12723%	171	169	-1%	(482)	659	237%
RELIANCE	(214)	1,043	587%	(214)	(271)	-21%	(214)	365	270%
RELINFRA	(649)	756	216%	(649)	294	145%	(649)	878	235%
RELPETRO	62	106	70%	(155)	127	182%	0	135	0%
RPOWER	36	186	415%	(9)	81	1009%	77	119	56%
SAIL	(370)	145	139%	(357)	86	124%	(67)	82	223%
SATYAMCOMP	(249)	97	139%	(177)	194	210%	0	(161)	0%
SBIN	115	4,811	4080%	115	3,803	3205%	115	3,826	3224%
SESAGOA	(74)	39	152%	(64)	200	410%	(45)	126	379%
SIEMENS	48	269	458%	120	284	137%	(130)	334	357%
STER	(61)	171	382%	(61)	76	225%	(61)	56	192%
SUNPHARMA	374	10	-97%	374	(167)	-76%	374	(145)	-78%
SUZLON	(149)	113	176%	(172)	157	191%	(172)	200	217%
TATACOMM	(70)	235	435%	(88)	64	172%	(88)	68	177%
TATAMOTORS	17	185	1021%	3	223	6373%	6	233	4002%
TATAPOWER	(29)	72	346%	(29)	(12)	142%	(29)	(40)	-27%
TATASTEEL	(775)	714	192%	(365)	560	254%	(327)	453	239%
TCS	1,482	1,445	-2%	1,292	1,412	9%	1,635	727	-56%
ULTRACEMCO	(383)	311	181%	(467)	(455)	3%	0	(183)	0%
UNITECH	4	224	5954%	(194)	99	151%	(81)	130	259%
WIPRO	(191)	(90)	113%	(227)	108	148%	92	70	-24%
ZEEL	(54)	8	115%	(54)	54	200%	0	30	0%
<b>Ave Outperformance</b>		<b>49</b>	<b>781.00%</b>		<b>49</b>	<b>629.77%</b>		<b>40</b>	<b>672.86%</b>
<b>Ave Underperformance</b>		<b>18</b>	<b>-61.63%</b>		<b>18</b>	<b>-60.87%</b>		<b>20</b>	<b>-62.84%</b>

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