

It is well known that movements in stock prices are not linear. Even a healthy, trending stock makes a sharp 7-10% correction in the weeks following a steep rise over a short duration. Such steep upwards movements usually result from positive news on earnings surprise, analyst upgrades etc. There are usually 4 or more such instances in a year. In the event of such a scenario, an investor may either choose to do nothing (besides staying invested, passively) or may choose to sell post a steep rise and buy-back post the intermittent correction (i.e. manage the stock actively), which leads one to the obvious question – is the differential gain from the intermittent sell & buy-back really worth the effort? The answer in most cases is a resounding YES!

The above may be better understood through the example of tracking the stock price movement of Shriram Transport Finance Company Ltd. (STFC) over the 1 year period ending Nov 30, 2010. **As compared to the 90% gains of a passive investor, an investor managing the same stock actively could have generated 185% returns !!!** (assuming that all intermittent gains have been re-invested)



Example: Comparing returns for Active v/s Passive investment of ₹100000 into STFC on Nov 30, 2009

Date (Action)	STFC Price	Passive Investor		Active Investor	
		No. of Shares	Returns	No. of Shares	Returns
Nov 30, '09 (First Buy)	₹ 426	(1 Lac/426) = 234.7		(1 Lac/426) = 234.7	
Feb 3, 2010 (Sell)	₹ 517				(234.7 X 517) = 1.21 Lac
Feb 6, 2010 (Buy)	₹ 477			(1.21 Lac/477) = 254.4	
May 6, 2010 (Sell)	₹ 608				(254.4 X 608) = 1.54 Lac
May 12, 2010 (Buy)	₹ 537			(1.54 Lac/537) = 288.1	
Aug 24, 2010 (Sell)	₹ 788				(288.1 X 788) = 2.27 Lac
Aug 31, 2010 (Buy)	₹ 718			(2.27 Lac/718) = 316.2	
Nov 4, 2010 (Sell)	₹ 894				(316.2 X 894) = 2.83 Lac
Nov 19, 2010 (Buy)	₹ 804			(2.83 Lac/804) = 351.5	
Nov 30, '10 (Final Sell)	₹ 811		(234.7 X 811) = 1.9 Lac		(351.5 X 811) = 2.85 Lac
% Total Returns			90.3%		185%

A trending stock can be managed actively to generate far better returns as compared to the case of passive management of the same stock over the same time period. In the example of STFC, active management could have led to over 100% better returns for the investor over the one year duration ending Nov 30, 2010 !!!

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