

Quantamental

The System is the Edge!

Quantletter May 2020

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When we create a portfolio, allocating weightages to stocks is an important point to think through. In a discretionary portfolio, investors typically use “conviction-weighting”. That is, their stock allocation depends on how convinced they are about their stock pick. Some people talk of using the Kelly criterion, though to be truthful, I have never seen anyone use it in real life. Why Kelly criterion cannot be used with any degree of confidence is a topic for another day.

In a non-discretionary portfolio like a quant-based strategy, where you are not doing any bottom-up fundamental analysis, conviction does not play any role. So, you need to have some formulaic way to decide on the weightages for stocks. Here are some standard ways:

- **Equi-weighted** – all stocks start with equal allocation
- **Market-cap weighted** – allocation based on market cap. Two possible combinations are possible based on the strategy implemented – i) higher allocation to higher market cap stocks or ii) higher allocation to lower market cap stocks.
- **Trailing return based** – allocate stocks based on past returns. Again, two possible combinations here: i) higher trailing returns have higher allocations for trend following or momentum portfolios and ii) lower trailing returns have higher allocations for mean reverting portfolios.

For the Q30 system, we chose to go with the simple equi-weighted allocation. As Q30 is a combination of growth, momentum and trend following, with a decent time horizon (3 months) so to keep things simple, equal weighting is easy to understand and simple to follow.

I am a big proponent of keeping things simple. Because, it is easier to implement simple strategies. Also, simple strategies tend to stand the test of time. The more complex the strategy, the more chance of data-fitting is possible. That is, picking a strategy that only works for a certain period under certain circumstances. Q30 as a strategy is envisaged as a strategy that will win big during a bull market and lose less in a bear market.

Q30 Quant Stocks basket for May to July 2020.

Stock Name	NSE Code	LTP	Market Cap	Reset Date
Ipsca Laboratories	IPCALAB	1620.00	20452	31-07-2020
Adani Green Energy	ADANIGREEN	211.00	32914	31-07-2020
Navin Fluorine	NAVINFLUOR	1569.00	7782	31-07-2020
Abbott India	ABBOTINDIA	17599.00	37677	31-07-2020
Biocon	BIOCON	354.10	42474	31-07-2020
J B Chemicals	JBCHEPHARM	562.00	4476	31-07-2020
Laurus Labs	LAURUSLABS	511.00	5479	31-07-2020
Ajanta Pharma	AJANTPHARM	1487.75	13042	31-07-2020
Alkem Laboratories	ALKEM	2625.00	31075	31-07-2020
Alembic Pharma	APLLTD	748.90	14014	31-07-2020

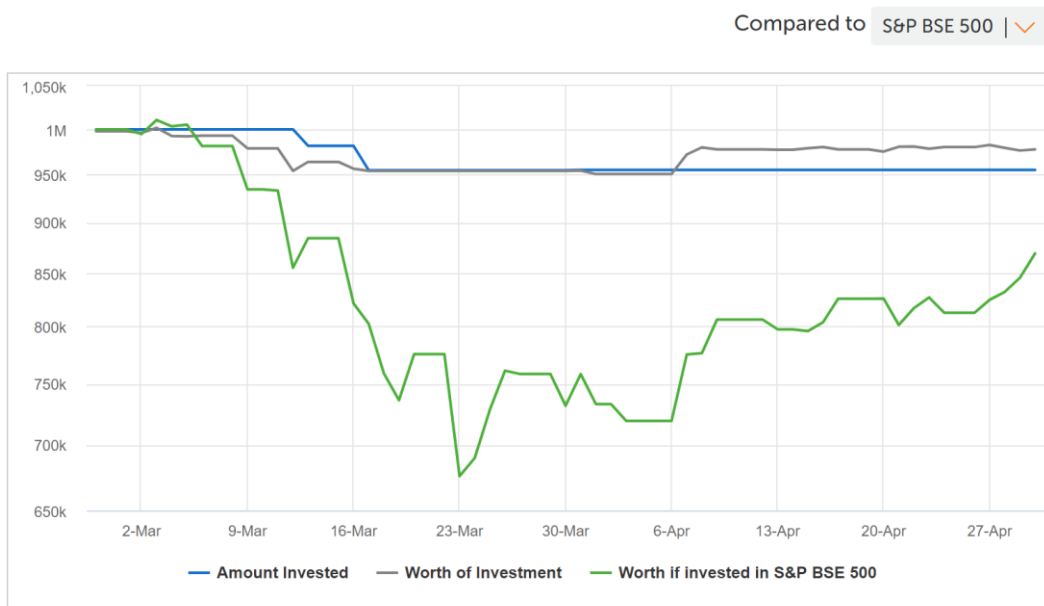
Please note that 1/3rd of Capital allocated for Q30 portfolio will be distributed over these 10 stocks in equal proportion as part of the model portfolio. Model portfolio started with 10 Lakhs at launch.



Performance of Q30 Quant Stocks basket for April to June 2020.

NSE Code	Buy Price	Current Price	Profit/Loss %	Reset Date
IPCALAB	1392.25	1620	16%	30-06-2020
NESTLEIND	16300.60	17899	10%	30-06-2020
HINDUNILVR	2298.50	2205	-4%	30-06-2020
CADILAHC	267.25	323.95	21%	30-06-2020
DRREDDY	3120.75	3931	26%	30-06-2020

Current Portfolio Value: ~9.8 Lakhs. Drawdown: ~2%. Equity 1.9 Lakhs. Cash 7.9 Lakhs



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