

AN EXPLORATION OF THE TREND OF IDIOSYNCRATIC RISK FOR INDIAN COMPANIES

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ABSTRACT

This paper uses a disaggregated approach to study the volatility of common stocks at the market, industry, and firm levels. This paper finds that there is a no difference in the trends of firm-level volatility relative to market volatility over the period 1997 to 2007.

Accordingly, correlations among individual stocks and the explanatory power of the market model for a typical stock do not declined and the number of stocks needed to achieve a given level of diversification remain stable.

The purpose of this paper is to provide a simple summary of historical movements in market, industry, and firm-level volatility. A decomposition of volatility that does not require the estimation of covariances or betas for industries or firms is provided.

Data used for this purpose is stock returns in BSE-500 index consisting of 500 scrips in its basket which represents nearly 93% of the total market capitalisation on Bombay Stock Exchange Limited.