

# **MULTIPLE DIMENSIONS OF CYCLICALITY IN INVESTING**

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## **ABSTRACT**

Equity as an asset class tends to exhibit returns that are erratic and uneven. Contrary to popular opinion, such fluctuations in returns cannot be attributed to business cyclicalities alone. Historically, investor's attitude towards risk have had ramifications on the way individual stocks and indices are priced. Commonalities across market up-cycles and down-cycles are examined using data on the Nifty-50 index. Based on firm level characteristics, the investible universe is segregated into two categories, namely Quality and Cyclical. The performance of Quality and Cyclical portfolio across market cycles is analysed. Although markets are 'efficient' in the long run, investor perception plays an important role in short-term pricing. The Price to Earnings (P/E) ratio in spite of its shortcomings serves as a useful tool in evaluating prospective investments.