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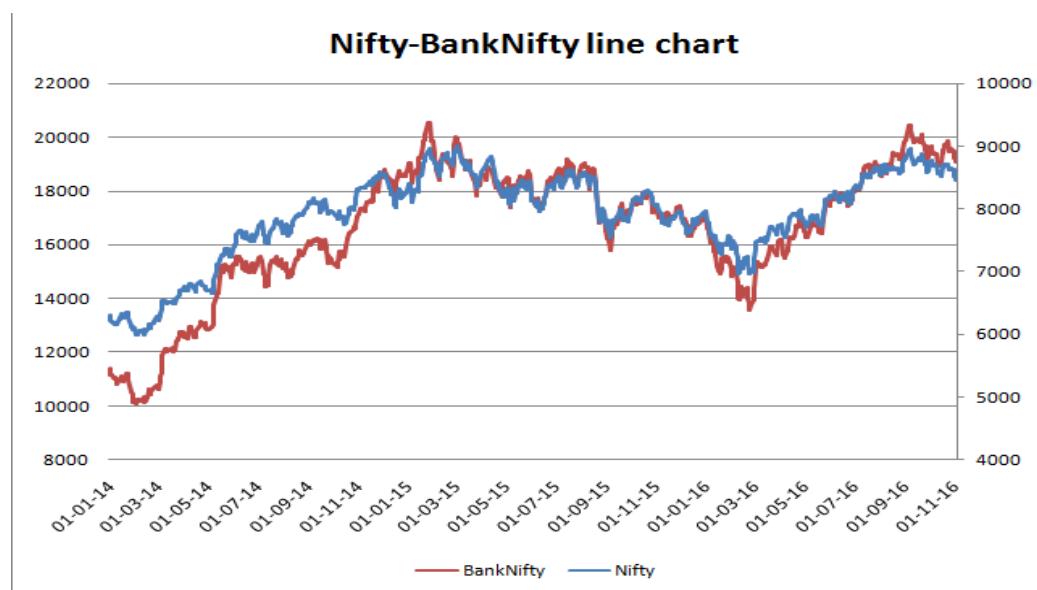
Alternate Research

7th NOV

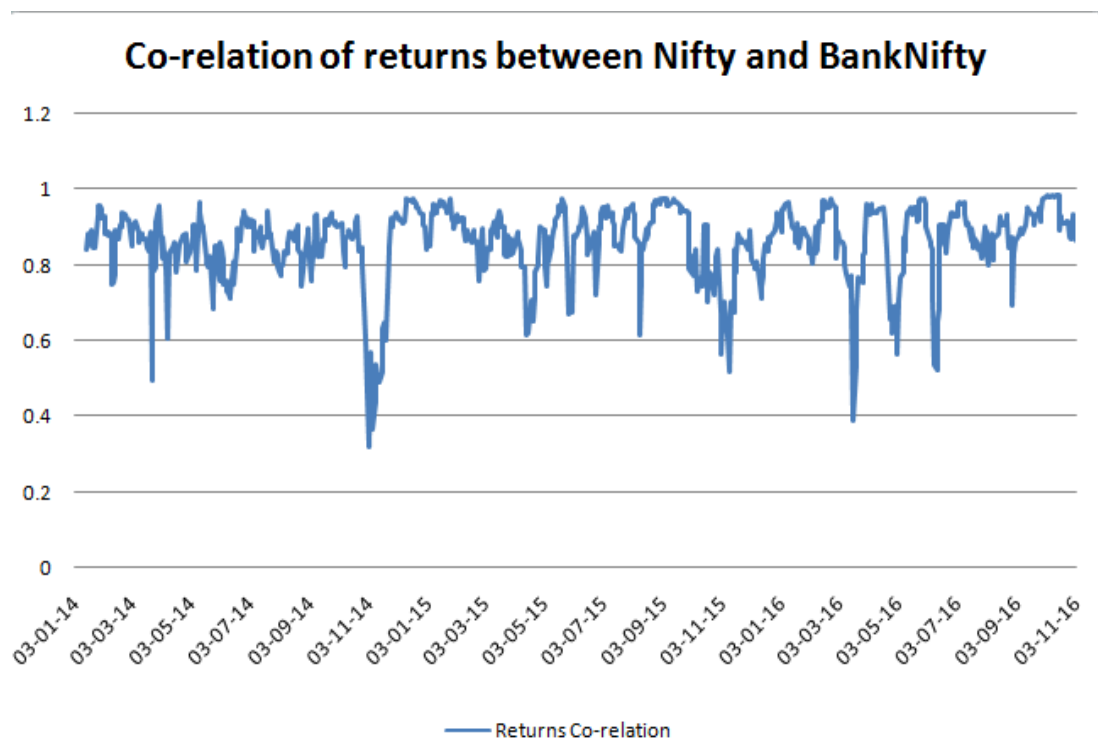
Nifty & Bank Nifty – How closely are they related?

Co-relation is simply a measure of interdependence of two variables. It shows how strongly the two are related. It is widely used in statistics and is measured by something called as a 'co-relation coefficient'. The co-efficient varies from +1 to -1 where +1 states a strong positive co-relation and a -1 means exactly opposite. In stock market or any other asset class it simply means whether two entities will move together or exactly opposite. Co-relation has helped everyone, from small traders to big fund managers creating a long-short portfolio from time to time.

It's always said that the move in currency pair USDINR will mostly be opposite to that in the benchmark index, but not many have tried to draw the same conclusion statistically. Not only had we derived a co-relation for this pair but also for Nifty and Bank Nifty. Here are some of our findings.



We chose our look-back period from January of 2014. There were a total of 699 entries. Above is the line chart which is a visual representation of how closely they move.



Instead of calculating the co-relation on close prices we analyzed a co-relation between daily returns of Nifty and Bank Nifty. Above is a plot of a 10 day rolling co-relation coefficient of the same. It was found that 84% of the times there was a co-relation coefficient was more than 0.7.

It simply means that if you are willing to trade Nifty and/or Bank Nifty do not take opposite trades. I am sure most of us already knew it but now we have a data set to back this claim up.

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