NPTEL

Course Name: Security Analysis and Portfolio Management

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Session # 15 Industry Analysis – I

Q.1: Why is industry analysis important as part of security analysis?
Ans.: Among other things, the following issues are addressed by industry analysis, thus making it one of the essential tools of security analysis.

- Difference in returns for alternative industries during a specific period of time
- Relationship between the market and an individual industry
- Difference in risks for alternative industries
- How consistent are industry returns over time?
- How sensitive a particular industry is to changes in business cycle?

Q.2: What is meant by sector rotation?
Ans.: As a part of sector rotation, portfolio is adjusted by selecting companies that should perform well for the stage of the business cycle. For example, during peaks – it will be better to invest in natural resource extraction firms and move to defensive industries such as pharmaceuticals and food in the period of contraction. Similarly it may be appropriate to invest in capital goods industries during 'trough' and cyclical industries such as consumer durables during expansion phase.
Q.3: What are the economic variables that can affect different industries' performance?
Ans.: the following economic variables can affect the different industries' performance:

- Inflation
- Interest Rates
- International Economics
- Consumer Sentiment