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Factor Investing in India: What Works, When, and Why

Dear Investor,

Have you ever heard of factor investing?

Factor investing offers Indian investors a smarter, more disciplined way to build wealth.

By focusing on specific characteristics, or “factors,” such as value, momentum, quality, and low volatility, you can build portfolios designed to deliver better risk-adjusted returns across market cycles. These strategies, once used mainly by global institutions, are now available in India through mutual funds, ETFs, and smart beta indices.

Here’s a practical guide to how each factor works, when it performs best, and how to apply it to your investment plan.

[Read More on our website](#)

Start with the basics: What is factor investing?

Factor investing is a rule-based strategy that focuses on stocks with traits that have historically driven long-term performance. The key factors commonly used include:

- **Value:** Undervalued companies trading below intrinsic worth
- **Momentum:** Stocks that have shown strong recent price performance
- **Quality:** Companies with strong balance sheets and consistent earnings
- **Low Volatility:** Stocks that show price stability with lower downside risk



These factors perform differently across market conditions, which is why diversification among them can help smooth returns over time.

Value: Buying strong companies at a discount

Value investing involves picking stocks that appear to be undervalued based on metrics like price-to-earnings (P/E), price-to-book (P/B), or dividend yield.

- Tends to do well during market recoveries or when fundamentals regain focus
- May underperform during tech-led rallies or high-growth phases
- Index representation: Nifty 500 Value 50

In India, value strategies have shown strong performance post-COVID, especially during periods of economic recovery.

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Momentum: Investing in recent winners

Momentum strategies invest in stocks that have performed well recently, based on the idea that strong trends often continue for a time.

- Performs best during sustained bull markets
- Carries a higher risk, especially during market corrections or sector shifts
- Index representation: Nifty 200 Momentum 30

To reduce volatility, some funds now combine earnings momentum with price momentum for better consistency.



Quality: Backing financially sound companies



Quality investing targets companies with strong fundamentals, such as high return on equity (ROE), low debt, and stable earnings.

- Performs well in uncertain economic conditions or volatile markets
- May underperform when markets are driven by risk-on sentiment
- Index representation: Nifty 200 Quality 30

This strategy offers solid downside protection and is well-suited for core portfolio allocation during uncertain times.

Low Volatility: Prioritising stability

Low-volatility strategies invest in stocks with more stable price movements, aiming to reduce portfolio swings.

- Helps protect capital during market downturns
- Tends to underperform in fast-rising bull markets
- Index representation: Nifty 100 Low Volatility 30, Nifty 500 Low Volatility 50

Useful for conservative investors or those nearing financial goals where stability is more important than outperformance.

Key takeaways for investors

- Factor investing offers a structured, data-driven approach
- No factor outperforms at all times; diversification is important
- Tools like smart beta indices, ETFs, and mutual funds make access easy
- Combining value, momentum, and quality can create a well-balanced portfolio

Low Volatility: Prioritising stability

There is no single “best” factor; each performs differently depending on market conditions. However, in recent years, a combination of value and momentum has delivered strong results in India.

- Value tends to lead during economic rebounds or when fundamentals are in focus.
- Momentum performs well in trending bull markets.

Together, they can offer both growth and balance. Meanwhile, quality and low-volatility factors play a critical defensive role, helping to protect during drawdowns and preserving long-term compounding.

Factor investing isn't about predicting the next hot stock but more about discipline, clarity, and building for the long term. Want help selecting factor-based ETFs or building a diversified portfolio?

[Read More on our website](#)