INTRODUCTION

Investors- professionals and novices, individuals and institutions - uniformly face a tough task of selecting stocks that would give a rate of return which is at least equal to the market return or expected return. This task becomes complicated, given the numerous scrips that are traded on the bourses and data inputs that are needed (from various sources) for forming expectations about future returns. The complexity involved in stock selection has given rise to the development of investment models that would support the tedious process of decision-making. These models range from 'simple - to - use' type meant for investors who do not have time and expertise on the subject to 'complex' models generally used by professionals.

These models may not be expected to select securities which would perform outstandingly at all times, but can be expected to provide a basis on which the analysts / investors would be in a position to make decision in better informed manner. Since these models use different criteria for selection, if a stock is picked up by majority of the models, say six or seven out of ten models tested, it is possible to single that scrip out and subject the same for further scrutiny. With a well-established system for collecting and updating required data online and programmes for portfolio selection under various parameters, the task of the investment manager is actually simplified to a greater extent.
The objective of this study is to critically test the composition and performance of portfolios selected by different selection models and to implore the possibility of automating the lengthy portfolio selection procedure to some extent. These selection models can be broadly grouped as Models based on Fundamental data and analysis; and Models based on Modern Portfolio Theory and its extensions.

Models based on Fundamental Analysis focus mainly on return maximisation and return - risk trade-off of individual securities. Sufficient diversification across industries has been the underlying aim of the portfolio selection. Models of Modern Portfolio Theory are designed to optimise returns and risk associated with stocks included in the portfolio: diversification is achieved by combining securities of different risk levels.

Assumptions underlying the development of these models, and their limitations as well as the research studies carried out to test the usefulness of these models are briefly discussed in the first two chapters. First chapter covers the models based on Fundamental Analysis and the second includes the models based on Portfolio and Capital Market Theories.