

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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**CONTRIBUTIONS TO BOOKS**

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

**JOURNAL AND OTHER ARTICLES**

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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## A STUDY ON FORECASTING BSE SENSEX BY USING HOLT-WINTER METHOD

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## ABSTRACT

This Project evaluates the out-of-sample forecasting accuracy of winter models for 5 month period from April 2013 to August 2013 Sensex in BSE. Sensex is defined as within-month as alpha & beta of Sensex on the BSE for the 12month period April 2012 to march 2013.

## KEYWORDS

forecasting, BSE Sensex, holt-winter method.

## INTRODUCTION OF THE STUDY

The Holt-Winters method is a popular and effective approach to forecasting seasonal time series. But different implementations will give different forecasts, depending on how the method is initialized and how the smoothing parameters are selected. In this post I will discuss various initialization methods.

Suppose the time series is denoted by  $y_1, \dots, y_m$  and the seasonal period is  $m$  (e.g.,  $m = 12$  for monthly data). Let  $\hat{y}_{t+h}$  be the  $h$ -step forecast made using data to time  $t$ . Then the additive formulation of Holt-Winters' method is given by the following equations

$$l_t = \alpha(y_t - s_{t-m}) - (1 - \alpha)(l_{t-1} - b_{t-1})$$

$$b_t = \beta(l_t - l_{t-1}) - (1 - \beta)b_{t-1}$$

$$s_t = \gamma(y_t - l_{t-1} - b_{t-1}) - (1 - \gamma)s_{t-m}$$

$$\hat{y}_{t+h} = l_t - b_t h - s_{t+h-m}$$

and the multiplicative version is given by

$$l_t = \alpha(y_t/s_{t-m}) - (1 - \alpha)(l_{t-1} - b_{t-1})$$

$$b_t = \beta(l_t - l_{t-1}) - (1 - \beta)b_{t-1}$$

$$s_t = \gamma(y_t/(l_{t-1} - b_{t-1})) - (1 - \gamma)s_{t-m}$$

$$\hat{y}_{t+h} = (l_t - b_t h)s_{t+h-m}$$

In many books, the seasonal equation (with  $s_t$  on the LHS) is slightly different from these, but I prefer the version above because it makes it easier to write the system in state space form. In practice, the modified form makes very little difference to the forecasts.

In my 1998 textbook, the following initialization was proposed. Set

$$l_m = (y_1 + \dots + y_m)/m$$

$$b_m = [(y_{m+1} - y_{m+2} - \dots - y_{m+m}) - (y_1 - y_2 - \dots - y_m)]/m^2.$$

The level is obviously the average of the first year of data. The slope is set to be the average of the slopes for each period in the first two years:

$$(y_{m+1} - y_1)/m, (y_{m+2} - y_2)/m, \dots, (y_{m+m} - y_m)/m.$$

Then, for additive seasonality set  $s_i = y_i - l_m$  and for multiplicative seasonality set  $s_i = y_i/l_m$ , where  $i = 1, \dots, m$ . This works pretty well, and is easy to implement, but for short and noisy series it can give occasional dodgy results. It also has the disadvantage of providing state estimates for period  $m$ , so that the first forecast is for period  $m - 1$  rather than period 1.

In some books (e.g., Bowerman, O'Connell and Koehler, 2005), a regression-based procedure is used instead. They suggest fitting a regression with linear trend to the first few years of data (usually 3 or 4 years are used). Then the initial level  $l_0$  is set to the intercept, and the initial slope  $b_0$  is set to the regression slope. The initial seasonal values  $s_{-m+1}, \dots, s_0$  are computed from the detrended data. This is a very poor method that should not be used as the trend will

be biased by the seasonal pattern. Imagine a seasonal pattern, for example, where the last period of the year is always the largest value for the year. Then the trend will be biased upwards. Unfortunately, Bowerman, O’Connell and Koehler (2005) are not alone in recommending bad methods. I’ve seen similar, and worse, procedures recommended in other books.

**INFLATION RATE**

The percentage increase in the price of goods and services, usually annually, Inflation is the increase in the price of goods and services, measured by calculating how much the same goods would cost over time. Each year the cost is compared and is reported as a percentage increase per year.

The formula for calculating the Inflation Rate looks like this:

$$((B - A)/A)*100$$

**BETA NEGATIVE**

The volatility measurement of a stock which reduces the volatility of a portfolio once that stock has been added. The beta coefficient of a stock or portfolio is a comparison of its risk to that of the stock market, stocks which are added that reduce the risk can be said to have a negative beta.

If Beta is negative; that means stock moves less than the market and is less volatile

**Beta= formula.**

$$N*\sum XY-(\sum X)(\sum Y)$$

$$N*\sum(X)^2-(\sum X)^2$$

**ALPHA**

$$\text{Alpha} = Y - \text{beta}(X)$$

Where : Y- Average return to NAV return X- Average return to market index.

Alpha indicates that the stock return is independent of the market return. A positive value of alpha is a healthy sign. Positive alpha values would yield profitable return.

**REVIEW OF SOME SELECTED STUDIES**

“Climate change and tourism – scenario analysis for the Bernese Oberland in 2030” by Author(s): Hansruedi Müller, Fabian Weber Volume: 63 Issue: 3 2008 says that Findings – The ecological consequences of climate change are shown for the different destinations in the Bernese Oberland. The economic effects on tourism under changed conditions are estimated. The changes in tourism revenue, including adaptation measures, would result in annual losses of approximately 70 million CHF, or about -4 per cent.

“Strategic positioning and performance of winter destinations” by Author(s): RuggeroSainaghi Volume: 63 Issue: 4 2008 says that .Findings – Two dimensions are of decisive importance: the commercial mix of customers attracted to the destination (distinguishing between day-trippers and longer-stay customers), and the structural mix of plant capacity and high turnover tourist accommodation facilities.

“Make it memorable: customer experiences in winter amusement parks” by Author(s): TerjeSlåtten, Christian Krogh, Steven Connolley Research Volume: 5 Issue: 1 2011says that Findings – One interesting discovery with practical implications for management is that both ambience factors – light, sound, and smells – and interaction among customers have significance for customers' positive emotions.

**RESEARCH OBJECTIVES**

- To study volatility in Indian stock market while taking SENSEX of Bombay stock exchange as a source of secondary data which broadly represent Indian stock market.
- To study the factors which are making Indian stock market.
- To furnish institutional material relevant for understanding the environment in which stock market fluctuation are occurring.
- To study on Bombay stock exchange profile.
- To review market forecast provided by the organization about fluctuation in the market.
- To provide necessary finding & suggestion and conclusion.

**RESEARCH METHODOLOGY**

**NATURE OF DATA**

Data used in this study is of secondary in nature. Sensex is taken as a source of information which widely describes Indian stock market. Here monthly prices of BSE Sensex, Inflation are taken for the study purpose.

**VARIABLE STUDIED**

bsesensex and inflation rate of these two variable were taken for the purpose of the study.

**METHOD OF DATA COLLECTION**

There are two methods of collecting data, Primary and Secondary data. In this study, major reliance is on secondary data. All the data are collected from the Bsesensex reports, for the one years i.e. from April 2012- March2013. Also includes data collected through websites and from books, magazines and technical and trade journals.

**REFERENCE PERIOD**

One year (2012-2013) were for the purpose of the study

**LIMITATIONS OF THE STUDY**

As the time available is limited and the subject is very vast.The study is general.It is mainly based on the data available in various websites &other secondary sources. The inferences made is purely from the past year’s performance. There is no particular format for the study. Sufficient time is not available to conduct an in-depth study.

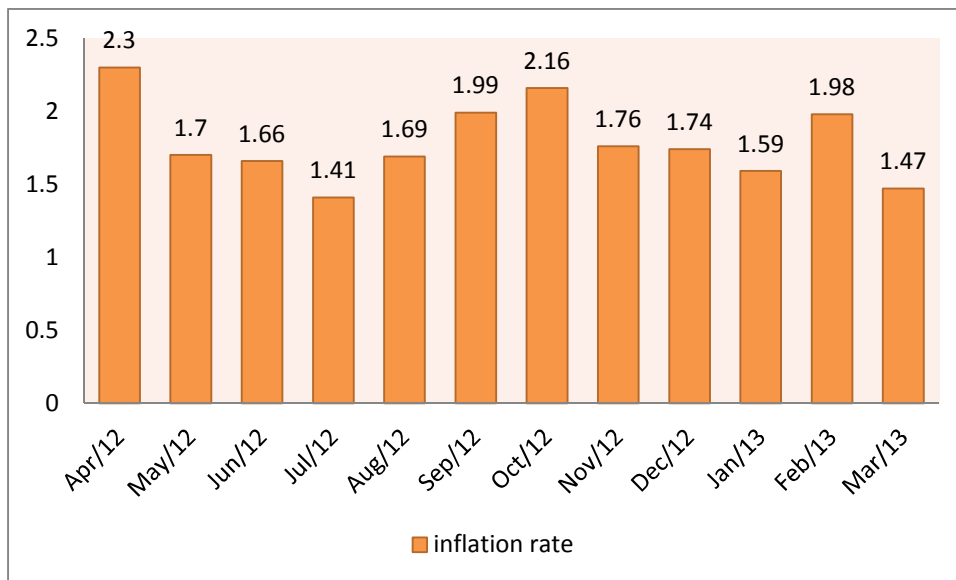
**DATA ANALYSIS AND INTERPRETATION**

**TABLE 1: INFLATION RATE**

Month	Inflation rate
Apr-12	2.3
May-12	1.7
Jun-12	1.66
Jul-12	1.41
Aug-12	1.69
Sep-12	1.99
Oct-12	2.16
Nov-12	1.76
Dec-12	1.74
Jan-13	1.59
Feb-13	1.98
Mar-13	1.47



**INFLATION RATE**



**TABLE 2: CALCULATION OF BETA**

Month	X	y	Xy
Apr-12	0	0	0
May-12	0.0731707	-6.35309	-0.464860419
Jun-12	0.0755545	7.469543	0.564357346
Jul-12	0.073062	-1.11188	-0.081236016
Aug-12	0.0754423	1.121942	0.084641922
Sep-12	0.0753854	7.64896	0.576620172
Oct-12	0.0728987	-1.37165	-0.099991836
Nov-12	0.0752738	4.509607	0.339455192
Dec-12	0.0727908	0.448865	0.032673226
Jan-13	0.0751624	2.410444	0.181174885
Feb-13	0.075106	-5.19448	-0.39013631
Mar-13	0.0677868	-0.13663	-0.009261518
	<b>0.8116335</b>	<b>9.441633</b>	<b>0.733436645</b>

**Beta= formula.**

$$N \cdot \sum XY - (\sum X)(\sum Y)$$

$$N \cdot \sum (X)^2 - (\sum X)^2$$

Beta as=0.03723

From the above the table it is noted that beta has a negative value as

**-0.03723**

**BETA NEGATIVE**

The volatility measurement of a stock which reduces the volatility of a portfolio once that stock has been added. The beta coefficient of a stock or portfolio is a comparison of its risk to that of the stock market, stocks which are added that reduce the risk can be said to have a negative beta.

If Beta is negative; that means stock moves less than the market and is less volatile

**CALCULATION OF ALPHA**

Alpha:

$$Y - BETA(X)$$

**Alpha as=9.4718**

From the above the table it is noted that alpha has a positive value as

9.4718.

A positive alpha of 1.0 means the fund has out performed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%.

**TABLE 3: FORCASTING OF INFLATION RATE ALPHA & BETA**

Month	Inflation rate	LT(ALPHA)	BT(BETA)
Apr-13	1.06	1	44980562
May-13	1.36	197144740.8	376408635
Jun-13	197144740.8	4.384	449805603
Jul 1013	4.384	1.48	449805603
Aug-13	1.48	2518911385	356026532

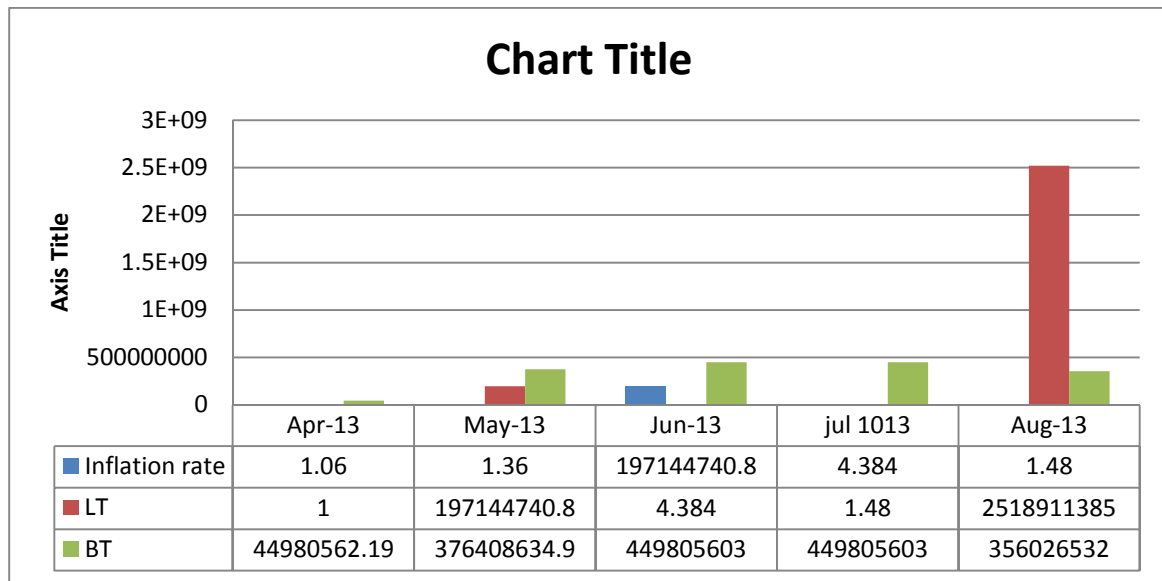


TABLE NO 4: BSE SENSEX

Month	bseensex
Apr-12	17,318.81
May-12	16,218.53
Jun-12	17,429.98
Jul-12	17,236.18
Aug-12	17,429.56
Sep-12	18,762.74
Oct-12	18,505.38
Nov-12	19,339.90
Dec-12	19,426.71
Jan-13	19,894.98
Feb-13	18,861.54
Mar-13	18,835.77

BSE SENSEX

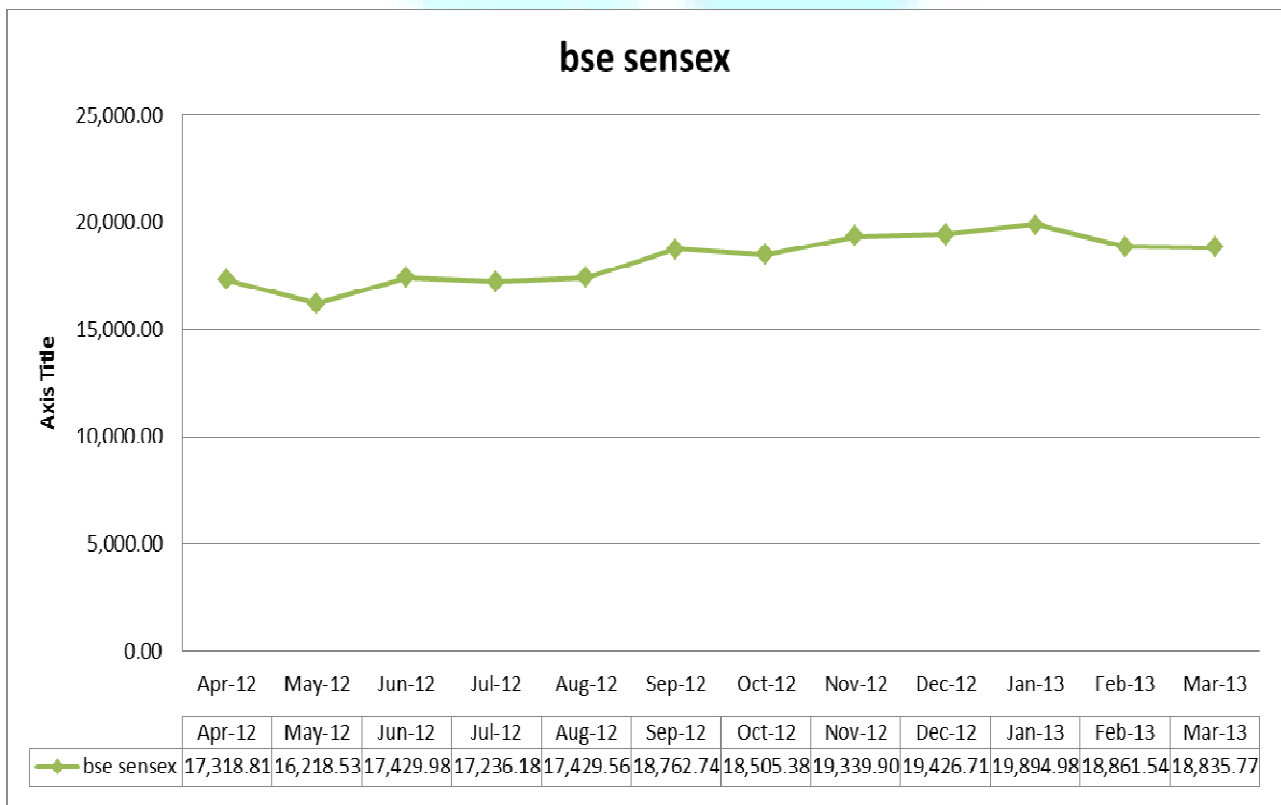
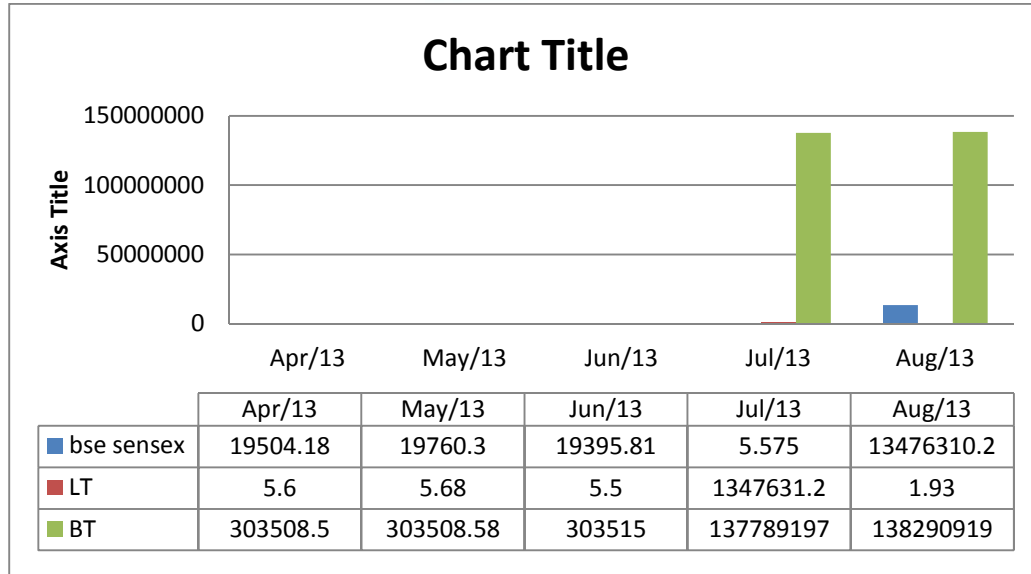


TABLE NO 5: FORECASTING OF BSE SENSEX ALPHA & BETA

Month	bsesensex	LT(ALPHA)	BT(BETA)
Apr-13	19504.18	5.6	303508.5
May-13	19760.3	5.68	303508.58
Jun-13	19395.81	5.5	303515
Jul-13	5.575	1347631	137789197
Aug-13	13476310.2	1.93	138290919

FORECASTING BSESENSEX OF ALPHA & BETA



CONCLUSION

In this study I tried to find out the impact of inflation rate and bsesensex on holt-winter method. The important result of this study is that the forecasting is determined by stock holt –winter method. Forecasting is major factor for the stock market boom in India the inflation rate and bsesensex are increasingly dominant in the holt –winter method

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