



WHAT IS MOMENTUM INVESTING?

When strong performance continues to gain recognition

**THE EQUITY
COMPASS**

EDITION
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Consistent performance across time provides greater confidence than a single strong result.

For example, a student scoring well in one exam may attract temporary attention. But when the same student performs well across multiple exams, different subjects, and changing levels of difficulty, the result begins to suggest something more dependable than a one-time outcome. The consistency makes the strength easier to recognize.

Momentum investing follows a similar idea.

Rather than focusing on a single sharp rise in a stock price, momentum investing looks for businesses that continue delivering strong performance while earning broader market recognition over time.



WHAT IS MOMENTUM?

Momentum refers to the tendency of a stock's or sector's price trend to persist over a period of time. In investing, sustained price strength may indicate that the market is increasingly recognizing improving business prospects or stronger investor confidence.



WHAT IS MOMENTUM INVESTING?

Momentum investing is an investment style that focuses on stocks or sectors that have shown strong recent performance and may continue to perform well in the near term.

The approach is based on the belief that market trends do not always reverse immediately. When a company reports improving earnings, gains market share, receives stronger investor interest, or benefits from favourable sector conditions, its stock price may continue to reflect that strength over time.

Momentum investors typically look for companies where price strength is supported by improving fundamentals or sustained market participation.

The objective is not to buy a stock only because it has gone up. The objective is to assess whether the strength has a reasonable basis and whether the trend remains intact.



WHAT MOMENTUM MAY INDICATE

Momentum may help investors identify areas where the market is recognizing improving business performance or stronger expectations.

MOMENTUM INDICATOR	WHAT IT MAY SUGGEST
Sustained price strength	The stock may be receiving continued market interest
Improving earnings trend	Business performance may be gaining strength
Positive relative performance	The stock may be outperforming peers or the broader market
Strong sector participation	A larger theme may be supporting the trend
Higher investor interest	Market confidence in the company or sector may be improving
Consistency of trend	The strength may not be limited to a short-term price movement

Name of MF – Bajaj Finserv Mutual Fund | Registration no. – MF/078/23/04



WHY CAN MOMENTUM EMERGE?

Momentum can emerge when the market gradually recognizes improving prospects in a company or sector. This recognition may not happen all at once. It can build over time as quarterly results, business commentary, demand trends, or sector conditions continue to confirm strength. As more investors notice these developments, demand for the stock may increase, supporting further price strength.

However, momentum is not always based on fundamentals. Sometimes prices may rise due to excessive optimism, short-term flows, or market speculation. In such cases, the trend may reverse quickly if expectations are not met.

This is why momentum investing requires continuous monitoring. The key question is whether the price movement is supported by real and sustainable business strength.



MOMENTUM DOES NOT MEAN CHASING PRICE MOVES

Momentum investing is often misunderstood as simply buying stocks that have already gone up.

But a disciplined momentum approach looks beyond recent price movement. It evaluates whether the trend is broad-based, sustained, and supported by relevant indicators such as earnings growth, business performance, sector strength, and liquidity.

A stock may rise sharply for a short period and still not qualify as a strong momentum opportunity if the move is unsupported or unstable.

Momentum investing also requires risk management. Since momentum stocks can correct quickly when sentiment changes, investors may need to monitor valuations, earnings expectations, and signs of trend reversal carefully.

Momentum is useful when it reflects sustained market recognition. It becomes risky when it turns into blind participation.



MOMENTUM INVESTING IN MUTUAL FUNDS

In mutual funds, momentum is typically one of several factors considered during portfolio construction rather than being used in isolation.

For example, a fund manager may increase exposure to companies demonstrating improving earnings momentum, stronger relative performance and favourable sector trends, while also evaluating business quality, valuations, liquidity and portfolio risk.

As market conditions evolve, the portfolio may be rebalanced if the factors supporting momentum begin to weaken. Rather than relying solely on recent price performance, momentum is combined with broader research to identify businesses where sustained momentum continues to be supported by underlying fundamentals.

Momentum investing is most meaningful when sustained market recognition is backed by underlying business fundamentals.



INVESTING STYLES IN ONE LINE – A QUICK RECAP

STYLE	FOCUS
Quality	focused on identifying strong businesses
Value	focused on paying less than intrinsic worth
Growth	focused on future earnings potential
Contra	focused on opportunities created by excessive pessimism
Momentum	focused on identifying businesses with sustained momentum

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.