AN EMPIRICAL STUDY ON MEASURES OF PERSISTENCE IN EXCHANGE TRADED FUNDS IN INDIAN STOCK MARKETS

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ABSTRACT

Exchange Traded Funds are considered as efficient, if they track the price fluctuations of their Benchmark Asset and adjust the prices accordingly. However, if these ETFs exhibit persistence, then they may not track their benchmark prices fully and this may result in arbitrage trading and thus poses a serious concern. The present article explores the measures to identify and evaluate the presence of such persistence in ETFs. For this purpose three major ETFs structured on Nifty Fifty Index were selected on the basis of their average turnover. Daily closing values of all the selected variables were taken for a reference period of two years ranging from 01-04-2016 to 31-03-2018 and the study employed ACF/PACF Test and GARCH (1,1) Model and Runs Test and it was found that the ETFs had significant autocorrelation in their lagged prices and the shocks do not die down rapidly which clearly indicated that there is significant persistence in the prices of these ETFs.

Key words : Nifty ETFs, Persistence, ACF/PACF, GARCH(1,1), Q stats, Runs Test