



GETTING SMARTER SERIES

HERFINDAHL-HIRSCHMAN INDEX (HHI)



Herfindahl-Hirschman Index (HHI) - Overview

What is HHI ?

- ❖ Herfindahl-Hirschman Index (HHI) is a measure of market concentration used to determine concentration of market share in an industry.
- ❖ In investment world, it can be used to quantify concentration risk in a portfolio.

How it is calculated for portfolio?

- ❖ HHI is calculated by summing the squares of each holding's percentage weights.
- ❖ Lower the value, more diversified is the portfolio in question

Herfindahl-Hirschman Index (HHI) - Illustration

Let us consider below 2 hypothetical portfolio to understand calculation of HHI

Portfolio 1

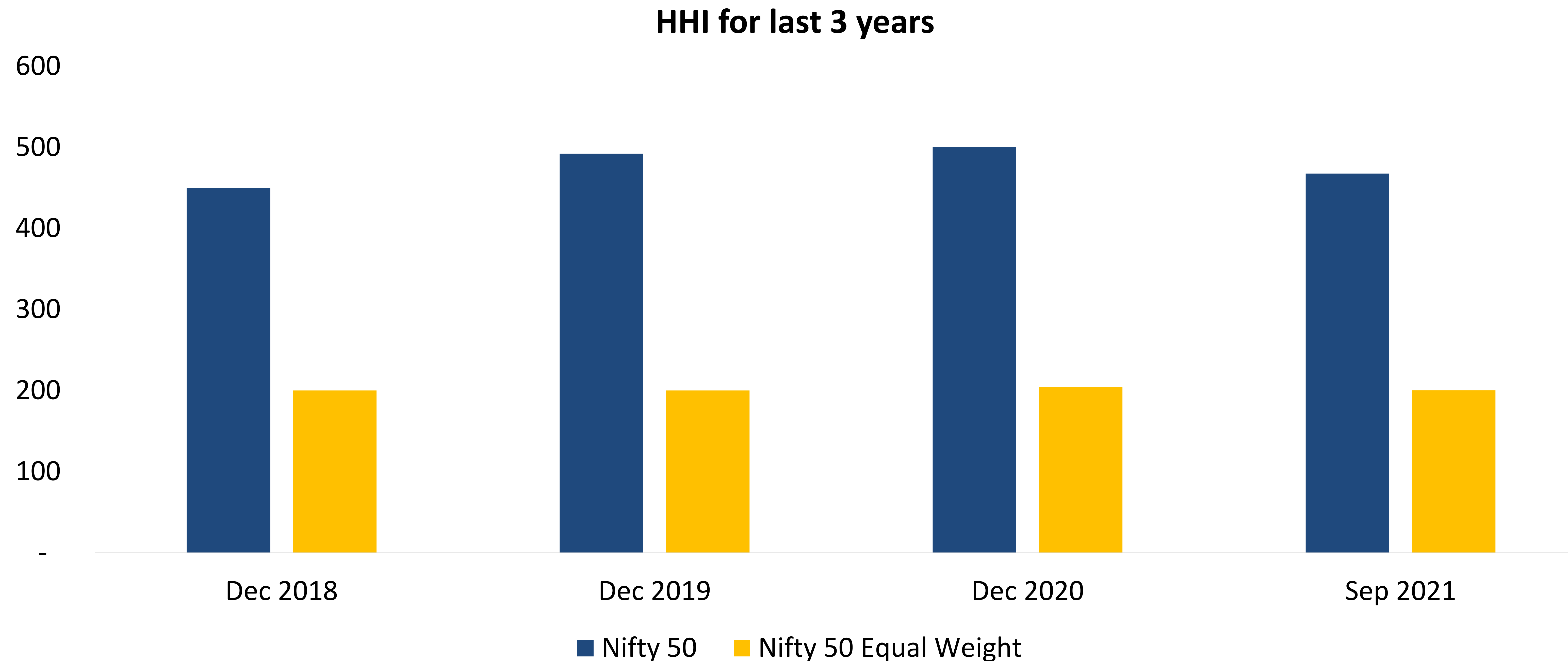
Stock Name	% Weight	Weight square
Stock A	60	3600
Stock B	25	625
Stock C	10	100
Stock D	5	25
Portfolio HHI (Sum of Weight square)		4,350

Portfolio 2

Stock Name	% Weight	Weight square
Stock A	25	625
Stock B	25	625
Stock C	25	625
Stock D	25	625
Portfolio HHI (Sum of Weight square)		2,500

Portfolio 2 has less concentration risk as HHI of Portfolio 2 < HHI of Portfolio 1

Herfindahl-Hirschman Index (HHI) – Nifty 50 vs Nifty 50 Equal Weight



Nifty 50 Equal Weight is more diversified compared to Nifty 50 index based on HHI index

Disclaimer

Disclaimer: In this material DSP Investment Managers Pvt. Ltd. (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. The above data/statistic are given only for illustration purpose. The recipient(s) before acting on any information herein should make his/their own investigation and seek appropriate professional advice. This is a generic update; it shall not constitute any offer to sell or solicitation of an offer to buy units of any of the Schemes of the DSP Mutual Fund.

For index disclaimer click [here](#).

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

DSP INVESTMENT MANAGERS

#INVESTFORGOOD