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## Has the market slide stopped?

April 3, 2008

Every action, said Newton, has an equal and opposite reaction. So, for every peak in the stock market, there must be a trough. Which has been happening with alarming frequency over the past few months. The result has been an extraordinarily volatile period. Through it, you, the investor, have stayed cool. You've often used the lows to buy, and then made a killing on the highs. But it looks like those days are ending.

Call it a downturn, a crash or the beginning of a bear market, the result is the same: a 25% fall from the market's peak. The strategies you used to combat volatility might not work; this market calls for belt-tightening measures. And investors are getting anxious, if not worried.

Who better to assuage their anxieties than the heads of prominent brokerages and mutual funds? We asked five questions to a panel of market experts. Their strategies might differ, but they are unanimous in telling investors that there is definitely no need to panic. But then we found that while investors were justifiably concerned, they were nowhere near panic. We spoke to a cross-section of investors and, as always, their responses have taught us a thing or two about dealing with downturns.

We delve further into the subject, as Prashant Jain, CIO, HDFC Mutual Fund, discusses market valuations and his take on the current scenario. To complete that picture, our regular columnist, Dipen Sheth, talks of the benefits of sitting on cash. Which brings us to perhaps the most neglected part of investing is selling. Cut your losses early, because, after all, a rupee saved is a rupee earned. And there lies the way to wealth.

## Where are the markets headed? Is this the end of the fall?

**Consensus of experts is that markets are at or near bottom. Recovery though will be slow and selective.**



**Jayant Pai, associate vice-president, IL&FS Investsmart Securities**

When it comes to market direction, people often tend to extrapolate into eternity. There is a feeling that now we will keep on falling. I think we have reached an intermediate bottom at around 14000.



**V Ramesh, chief executive officer, Prabhudas Lilladher**

I think this is the bottom; in case there is a fall, it could be another 10-15%. That is because we never seem to know when some bad news will hit. There seems to be no sign of an immediate V-shaped recovery pattern.



**Amitabh Chakraborty, president (equity), Religare Securities**

At the beginning of the year, we had a Sensex target of 25000 by March 2009. We have scaled this earnings estimates by 7%. Based on a median 16x forward earnings, with value of 1500-2000, a level of about 18,000.



**Bhavesh Shah, VP (Research), Asit C Mehta Investment**

There's a global and a domestic dimension to what happened in the market and what could be the trend going forward. Looking at these, I think the market is likely to be in the range of 14500-18500 in the next three months.

**DD Sharma, senior vice-president, research, Anand Rathi**

The correction is more or less over and unless Nifty closes below its 22 January low of 4450, I think we are heading for a good recovery. In next three months, the Nifty

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### Stock market's faces

**Crash** is a major fall in the market index and is often substantial and lingering. To be considered a crash, there must be a 5-10% drop in an index's total value. The Sensex fell by almost 22% in May 2004 from 5757 on 6 May to 4505 on 17 May.

**Correction** is a reverse movement by the market index of at least 10%. This is generally a temporary price decline, interrupting an uptrend. Sensex rallied from 14935 to 15307 in the first week of August 2007 only to correct to 14141 on 17 August.

**Downturn** is a sharp, continued drop in the index. The market takes many weeks to recover, and in some cases, it indicates the start of a bear phase.

**Bear Phase** a sustained decline in the index over a long period is a bear phase. Between January 2001 and May 2003, Sensex declined 1000 points or 25%.



could touch 5200-5400 levels.

## Should I buy now or wait for the markets to stabilise?

If you are investing for the long term (at least one year) and in fundamentally good stocks, go ahead and invest.



**Sandeep Shenoy, strategist, PINC Research**

It's impossible to time the markets. If you have a long-term perspective, it's a good idea to enter, as long as you stick to fundamentally strong stocks.



**R Swaminathan, vice-president & national head of mutual funds, IDBI Capital**

One cannot gauge the bottom of the market to start buying. Right now the investors should review their portfolio and reshuffle if necessary.

**V Ramesh, chief executive officer, Prabhudas Lilladher**

My conviction remains that stock market should be for long-term investors. Retail investors can opt for good mutual fund schemes with a long-term perspective.

**Bhavesh Shah, VP (Research), Asit C Mehta Investment**

Investors with strict discipline can buy systematically and in small quantities in the current market. Large-cap companies are better bets.



**Maneesh Kumar, head, wealth management solutions, ASK Wealth Advisors**

Timing the market is never advised. The key is to stay invested and average into companies that are fundamentally strong and available at good value.



**Ketan Karani, vice-president, Kotak Securities**

This is a period for one to start accumulating fundamentally strong stocks for the long term.

### Here's why long-term investing works

Assume you decided to buy Aditya Birla Nuvo during the May 2006 crash (17 May to 14 June)

You bought **100 shares for Rs 822.07** pre-crash. The stock was at **Rs 683.33** on 1 June. Had you panicked and sold, your loss could have been as high as **Rs 13,874**.

If you had held on, you would have seen the shares recover to **Rs 839.23** on 29 September 2006. Had you sold then, your gains would have been **Rs 1,716**.

If you stuck on through the next crash (26 July 2007 to 21 August 2007), you would have made Rs 55,253 despite the market being in a crash. On 30 July 2007, Aditya Birla Nuvo was trading at Rs 1,374.6.

Even better, if you had ignored the second crash and sold in October 2007 when the scrip was trading at Rs 1,760, you would have pocketed a cool Rs 93,793

## Will the Sensex attain 20000 levels in 2008?

The consensus opinion is that yes, the Sensex will touch 20000 this year. However, this will depend on a host of domestic and global macro-economic factors.

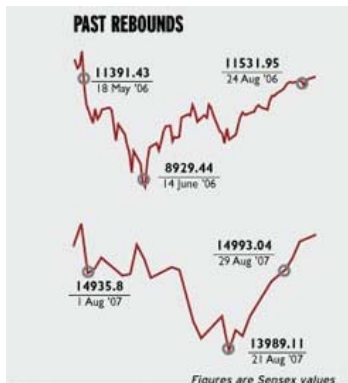
**Jayant Pai, associate vice-president, IL&FS Investsmart Securities**

Predicting levels is always hazardous. I think three factors may aid the index's rise to 20000: a surge of international money flowing into the markets, the Indian corporate sector maintaining its earnings trajectory and continued progress on the domestic macro-policy front.

**V Ramesh, chief executive officer, Prabhudas Lilladher**

There is surely a possibility that the Sensex will touch 20000 again. The reasons for the current fall are largely external and hardly internal. The India growth story is intact, and in a worst case scenario, one can expect a growth rate of 8% plus. The only worry is inflation; if it is controlled, a surge is on the cards.

**Bhavesh Shah, vice-president (research), Asit C Mehta Investment**



Yes. And it may cross the 20000 levels during the current calendar year provided we have a good monsoon. There should not be any more external shocks, such as high crude oil prices or subprime-related losses.

**Ketan Karani, vice-president, Kotak Securities**

It is difficult to predict market levels in the short term. But I am confident of seeing the Sensex surge back to 20000 in 2008. This will be due to the return of global liquidity, strong quarterly results by Indian companies, controlled inflation and a reduction in domestic interest rates that will spur consumption.

**DD Sharma, senior vice-president (research), Anand Rathi**

In the short term, a pull-back rally is expected, and the index could touch a high of 17500 or so. Barring unforeseen negative events, I think the Sensex can attain 20000 levels in 2008. This is likely to be due to attractive valuations, leading to demand.



**Ajay Parmar, research head, Emkay Shares and Stock Broking**

Yes, the Sensex can reach 20000 if corporate earnings are robust, inflation is under control for a few months, no unpleasant surprises from the US markets, and domestic GDP and IIP numbers are back on track.

## Should I average my portfolio as stocks look attractive at these levels?

**Yes, averaging is a good strategy, but our experts recommend it only if you know exactly how it works.**

**Amitabh Chakraborty, president (equity), Religare Securities**

Averaging works if the stocks currently held are fundamentally sound. In a bull market, investors tend to accumulate stocks that are fundamentally not sound, but driven by momentum. If that is the case, don't average.

**V Ramesh chief executive officer, Prabhudas Lilladher**

There are two possibilities that you could consider at such attractive levels (a) realign the portfolio by weeding out the momentum stock and move into fundamentally stronger stocks, and (b) average the cost price of the portfolio. However, do this with care, so that you average the good stocks that will move with the market turnaround.

**Sandeep Shenoy strategist, PINC Research**

Don't average for the sake of averaging; if it is a good stock, say a blue chip, add to your exposure. Else, don't.

**R Swaminathan, vice-president & national head of mutual funds, IDBI Capital**

The fall can be used to a certain extent to average the cost price. However, one should not be invested fully at any point. The market may react to many factors such as a moderate slowdown in the economy, or inflation. The expected good quarterly results may also propel the market. These opportunities can be used for averaging.

**Bhavesh Shah, vice-president (research), Asit C Mehta Investment**

The decision depends on whether share prices of the company were brought down as part of routine profit booking/risk aversion or if it was a function of poor earning prospects. I think an investor can add on declines if companies show tremendous earnings potential, greater competitive advantage and a strategy to mitigate external risks.

## Will the past winning stocks and sectors lead the recovery?

**Opinion is divided on this one, but there is some consensus that defensive sectors are worth tracking for future gains.**

**Maneesh Kumar, head, wealth management solutions, ASK Wealth Advisors**

Rotating is a common feature of volatile markets; yesterdays heroes may not be tomorrow's superstars. But, some earlier sectors will still work, such as power, infrastructure, metals, banking and financial services.



**Sandesh Kirkire, chief executive officer, Kotak Mutual Fund**

This may not necessarily be the case, though some tactical investing can be undertaken in the previous sectoral leaders (real estate and power utilities) as the bounceback could be impressive. However, tread with caution.

**V Ramesh, chief executive officer, Prabhudas Lilladher**

It is important not to just look at the steep fall, but also at the sector. IT and real estate had a steep fall.

### How averaging works

Assume you invest Rs 10,000 in RCom before May 06, and another Rs 10,000 through the crash of May 06

Pre-crash (5 May) purchase at Rs 340  
**No. of shares = 30**

During the crash (13 May) purchase at Rs 202.4  
**No. of shares = 49**

Weighted avg cost of 79 shares  
**Price = 253.75**

By buying when the stock fell, the cost of each share was reduced. Now by selling at any price higher than Rs 253.75 you will make a profit

If you had sold in Aug-Sep 06, when RCom touched Rs 346.75, you would have gained Rs 7,330.45, with returns of **36.65%**

I would not advise investors to get into these sectors at the moment and suggest sectors like banking instead.

**Amitabh Chakraborty, president (equity), Religare Securities**

There will be sector rotation. Defensive sectors like pharma, FMCG and agri commodities will do well. One needs to weigh the near-term cash generation ability of the companies, and high dividend yield can be a good indicator.

**Bhavesh Shah, vice-president (research), Asit C Mehta Investment**

Sectoral allocation will see a change in next couple of months. Banking, telecom, FMCG, pharma, engineering and infrastructure construction sectors are my picks for next six-nine months.

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