



TURTLE STAR - Equity Outlook (April 2019)

Understanding the Market Cycle

One of the most renowned market guru of recent times is Mr. Howard Marks. He clearly states in his book “Mastering the Market cycle” that is very important to “understand the investment environment we are in and deciding how to strategically position our portfolio for it”

The above are golden words – it clearly means that there is nothing that is permanently good or bad in our markets. The market goes through cycles and over long periods of time there is only one factor that decides the price appreciation and that is growth in profits of the companies. Having stated that, in the short term – herein short term means a period of 1-2 years, it’s the investment environment that decides how the stock prices will behave. As usual whenever we would like to talk about future, we would talk about history first, we have been in the business donning one cap or the other from early 1990s and the investment environment has seen changing times from the days of Harshad Mehta (1992) to Ketan Parikh (2001) to sub-prime crisis in 2008 to more recent periods marked by rampant corruption (2012-2013) to Demonetizations of 2016. Clearly in the short term, market fluctuations sought some reason and Mr. Market always finds and provides one or the other reason for both prices to go up or come down.

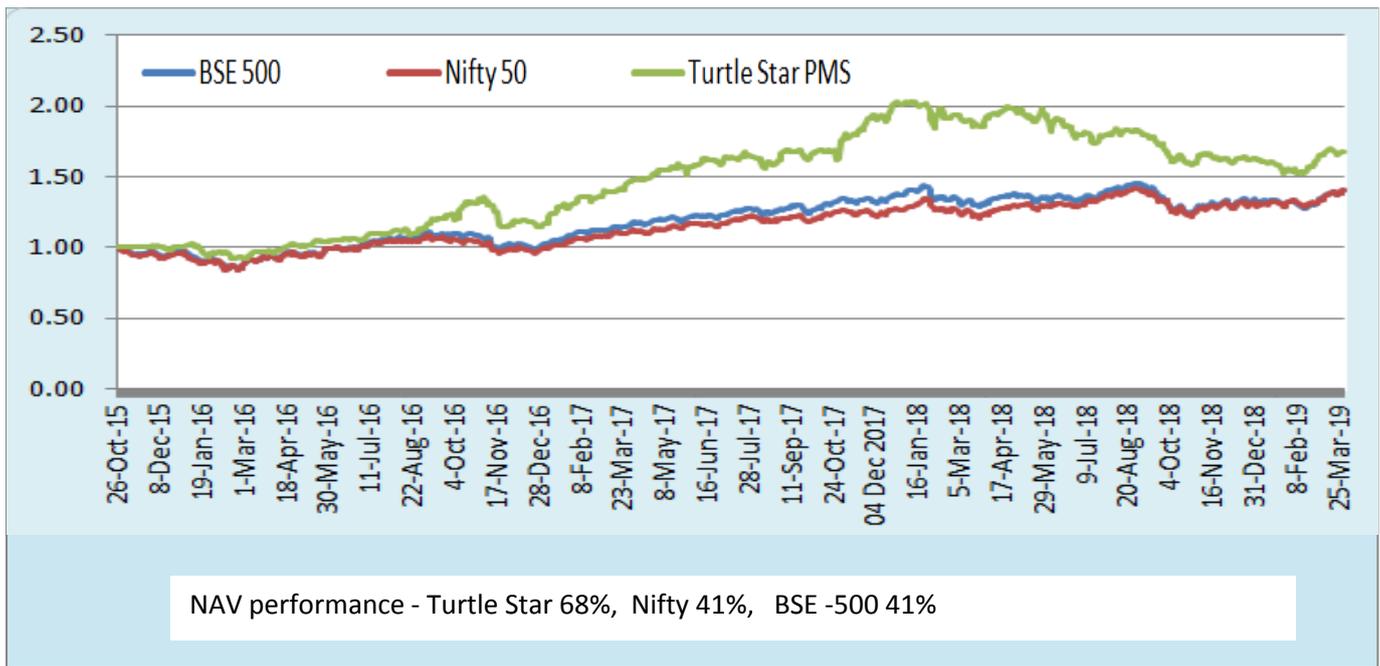
Stock markets rallied from June 2013 till Jan 2018 – the entire bull-run, amongst other factors, can be attributed to a strong government coming to power and the first victory trumpet was blown when the mandate of state election in November 2013 was in favour of Mr. Modi. The exact tables turned around five years down the line in December 2018, however market had started to build in the uncertainty in whole of 2018. It was only in February 2019, the first signs of Mr. Modi coming back to power are visible and this is evident from the FII figures from being -20,000 cr in 2018 to +38,000 cr in less than two months from mid Feb, 2019.

All this would mean that market is poised for another period of bull-run if the mandate from election 2019 is for a strong majority. These are our thoughts in understanding the current investment environment, now coming to the second part of the above written golden statement by Sir Howard Marks – “deciding how to strategically position our portfolio for it”

In this environment we have seen that quality large caps have been in a position to weather the storm better, we have seen that the flight of capital from mid and small cap companies and that resulted in plight of the pocket. Going forward as is widely expected, if the mandate of elections is for a strong government, we will see quality mid-cap companies first outperform the markets, we are investing our created liquidity into such market opportunities. Our optimism for the markets is also fuelled by two prime reasons – First the indications from FED that we will not see further rate hikes coming in 2019, it clearly indicates that equity will be a preferred asset class for investment by FIIs, infact most of the global markets have been up in 2019 anywhere between 10% to 17%, whereas Indian market has just taken off from the block, its up 7% and has lot of catch up still to do. That is our view on global liquidity and on the second factor – the TINA factor – it means There Is No Alternate for the domestic liquidity. Domestic surplus is still not finding its way into fixed income or real estate or gold. Indian markets will get further Boost if another round of rate cut is announced by the RBI governor in the coming policy. We continue to invest and look forward to better times

Happy Investing

Sunil Shah – Portfolio Manager – Turtle Star Portfolio Managers



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