

## Equity Outlook - October 2019

### Cycle – a See-Saw....

Life and Stock markets is an ever learning journey. One of the biggest things to realise is markets move in cycles. Second thing is to know where we are in the market cycle. Third aspect to understand is that there are things like Market cycle, Business/ Economy cycle and lastly the investor sentiment cycle.

Lets us dwell into each of them. In stock market everything is good at a price and everything is bad at a price. Its an art of assessing the difference between value and price. We believe that market cycle goes through bull and bear markets. At this point in time we believe the market is coming out of a bear cycle. There are lot of statistical indicators like normalised levels for Sensex, mid-cap and small cap indices, others can be volumes happening in the large cap, mid-cap and small cap stocks, also the volume done by FII / DII of the total volumes in the market etc. All of these parameters indicate that market is coming out of a bear phase.

In terms of portfolio positioning – when markets enter the bear phase, investors look at safety of capital and park their investments in safe stocks of high RoE, FCF

Stage	Phase of Markets	ROE	Free Cash flow	Growth	Mgt quality	Valuations	Remarks – Company picks
1	Bear Market starts	Very High	Yes	Yes	Good	Expensive	Nestle, 3M, Honeywell etc
2	Bear Market ends	High	Yes	No	Good	Moderate	Auto, FMCG, Consumption
3	Bull Market Starts	Moderate	No	No	Good	Moderate	Commodity stocks
4	Bull Market Ends	Poor	No	No	Bad	Poor	Debt laden, Pledge, Corp governance issue etc

The above table clearly indicates what works in which markets and at what time. We need to know where we are in the cycle. Our thoughts indicate that we are transiting from phase 1 to phase 2.

We have hence positioned the portfolio to capture this cycle in the markets.

Second comes the business/economy cycle. There is a marked slowdown in the economy; we believe that the factors that could reverse the slowdown will be resolution of the NCLT cases and actual disposal of assets and transfer of funds from new buyers to the banking channel. The second factor could be reduction in taxes on personal income, the third could be positive off-take of products in the festive season, the fourth could be increased demand on account of bountiful monsoon. All these factors are visible and they could result in improvement in economy over period of time.

The last to change in the cycle of “sentiments”. When everyone starts believing that bull markets in both markets and economy will remain forever, that is when the sentiments are at peak and new bunch of novice investors flock the markets with a left out feeling. Valuations take a back seat and positive price movements in short periods of time

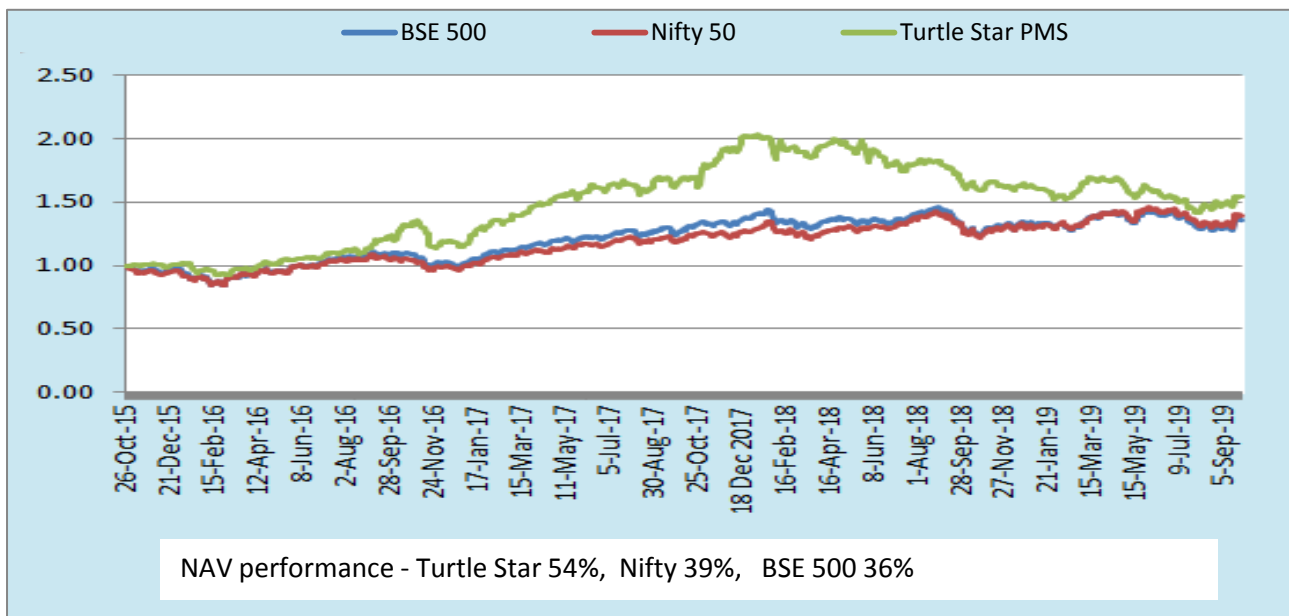
put a question mark on all realistic and rationale thinking, the penny stocks start trading at valuations of blue-chip and this are alarm signals.

We continue with our investment process of SIPping into our ideas and disowning the ones where there are structural flaws emerging. We like Corporate banks, Gold finance companies, auto ancillaries (Growth not visible but quality picks make it an apt candidate in phase 2 of the markets), quality rating companies etc. We are building our portfolio to capture the next leg of opportunity in the markets of quality management running the business that could benefit from economic turnaround.

Warm Regards

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