

## Equity Outlook

As usual we will try and talk in simple terms – what is going on in the markets and how do we see the road ahead. As we say markets are driven by three prime factors – earnings i.e. profits of the companies, liquidity – money coming in the markets and sentiment i.e. mindset or thought process or outlook of majority of participants in the markets.

Let us now look at each of them. Earnings for majority of the corporate for December quarter are expected to be better than the street expectation, given that December quarter of FY17 had impact of Demonetization. Hence on a relative basis – earnings cycle will look like on a revival path.

Next comes the point of liquidity. This needs to be understood in depth. Sensex and Nifty in the month of January were scaling new highs and the mid-caps and small –caps were reeling under pressure. In fact Sensex went up by 1000 points in 10 days and followed that by another 1000 points in mere 6 days. In the same period mid-cap and small cap companies started their southward journey. As per SEBI directive – schemes launched by mutual fund are segmented in various categories like – Large cap, Diversified, Balanced, Mid-cap, Small-cap, ELSS, Sectoral, Index funds etc – however the stock buying by the Mutual fund's Fund manager crosses their boundaries and enters the wrong territories. In simple terms Funds classified as large cap funds were also buying mid and small cap stocks. SEBI has drawn a Chinese wall and asked them to realign their holding.

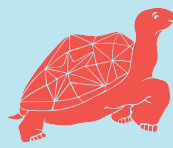
Given the directive – we again analyzed the numbers to form an informed decision. Approx – Rs 9 lakh crore are held by Equity Mutual Funds in India. Of these corpus – almost 80% is categorized as large cap i.e. approx Rs 7 lakh crore. In this holding they have to allocate 85% of the corpus to their category i.e. large cap stocks i.e. an amount of approx Rs 6 lakh crore. However their allocation to large cap is limited to between Rs 5 to 5.25 lakh crore, thus we are seeing reallocation of almost Rs 75K to Rs 1 lakh crore of selling in mid and small cap stocks and buying of similar value in large cap stocks. What it means is we could see Sensex / Nifty scale new peaks but portfolio of growth investors like us will see a decline in value for time being.

Like Sherlock Holmes we have solved the mystery of dissecting the markets thread bare. The third factor is that of the sentiments. In the near term – budget is driving the sentiments. Budget came- Budget saw- Budget went. Clearly it was with an eye on 2019 elections. Voters were being wooed from all sides. There are no significant takeaways for us as portfolio managers to take away from the budget. Overall the only and key important thing is to focus on the Ease of Living – let me just add for the downtrodden class. It is the people at bottom of pyramid that are worst affected and their needs in terms of healthcare, rural infra spend were attempted to be addressed in this budget. Stock markets will end up coughing up 10% as Long term capital gains from now on.

As our strategy we are witnessing selling in our stocks due to the rejig from mutual funds. We shall look at Q3 results of our stocks and invest. Let us say – if markets corrects and businesses of companies you own are not impacted – one should go and buy and vice-versa i.e. even if markets are rising and the companies you own are negatively impacted – one should go and sell. The only driving force to take a buy or sell decision should be the business you own and the valuation at which it trades.

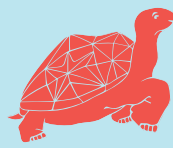
HAPPY INVESTING !!!

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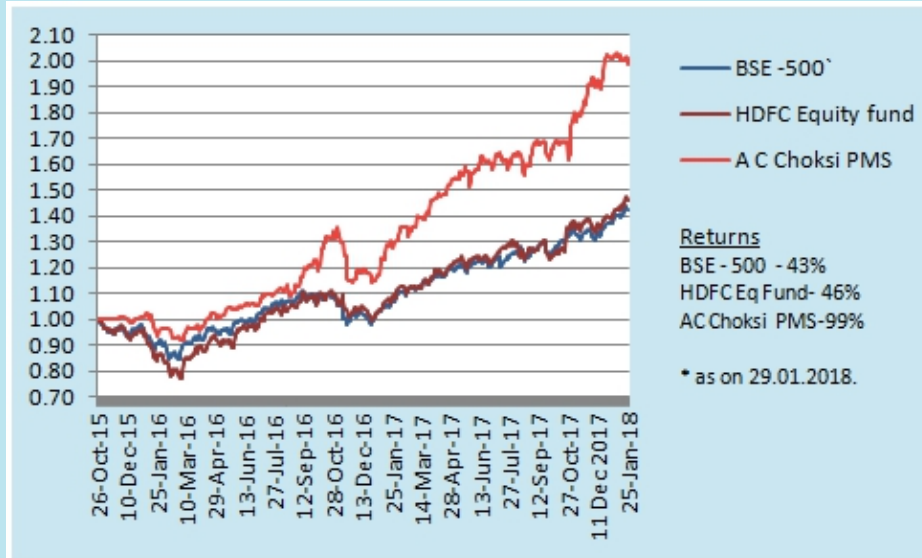


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