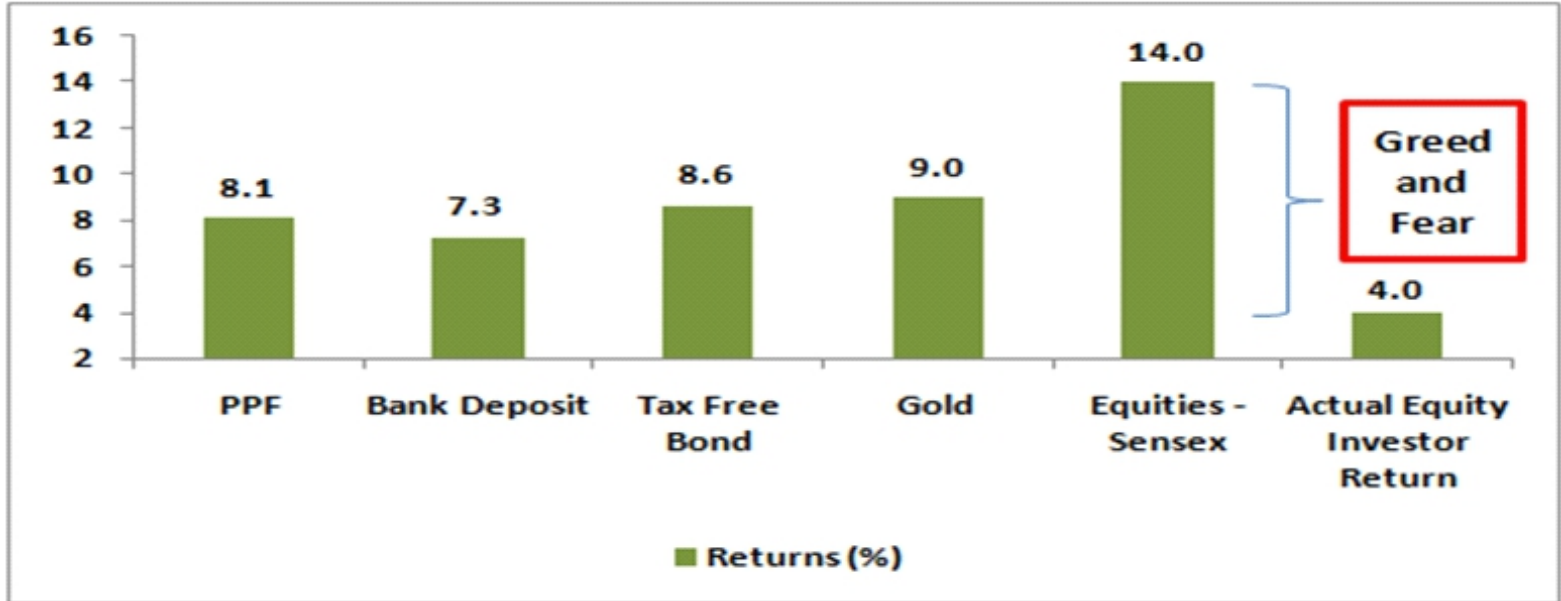




Equity Outlook

Money is an asset class that flows where growth is. There are two broader sources of liquidity or money flow – domestic and international. Internationally growth is tepid and liquidity is abundant. In India growth is significant but fund flow is scarce. International flows have to flow to emerging markets with India on top of the list. The choice of investment for domestic liquidity is limited and their return expectations are shown below:



Source: ACC

The data is self explanatory that equity over long period of time generates best returns (~14%). The reality is that an investor does not make that high returns that equities deliver (~ 4%). The difference between the two (~ 10%) is due to the behavioral traits of greed and fear. The emotional quotient of an individual overrides his intelligent quotient and the residual is the difference between ideal return and the real return.

We in the PMS attempt to delink the subjectivity and play it to our advantage. The stock markets swings between moods of greed and fear. Delinking the emotion of greed and fear and linking the stock market price to pure value is a trait to be mastered. The viewpoint of majority on any particular day decides the mood of the markets and consequently the stock price. Change as they say is the only permanent thing and likewise the viewpoint changes and so does the stock price. Stock market is perhaps a place where a Rupee worth of stock get sold at 50 paise only to be repurchased at Rs. 2 over a period of time.

We foresee a shift in fund flow from fixed income instrument and real estate towards equity. Favorable Demography, negative interest rates, southward sloping interest rate curve and reduced volatility in the equity markets will all attribute to higher flows from Bank Deposits, Real Estate etc towards equity. Liquidity from both domestic and global investors will chase the growing asset class of Equity for investments. Coupled is a simple statistical parameter of reduced volatility. Higher return per unit of reduced volatility makes an asset class attractive, we hence foresee better times going ahead.

We stay invested and are gradually accumulating stocks for new investors.

Bimal Choksi (Portfolio Manager)
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