Equity outlook - November 2019

A wonderful story was read in last few days. It is so good that I feel like sharing the same. Just think of taking a dog for a walk. Let the dog have a free walk. The dog shall move a few steps forward, then stop for a while, smell the ground, retrace back a few steps, then again move forward, gallop few steps, make the master run along, bark all of a sudden, attend a natures call so on and so forth, basically it would exhibit all kinds of erratic movement while moving from Point A to Point B. The master at the same time when told to travel the same journey would rather exhibit a more predictable and linear path with certainty about time and direction. I guess the message is clear, the behaviour of the dog is the pattern the market and stock prices take and the walk of the master is that of the underlying companies and their fundamentals and their earnings.

Let us look at both these aspect individually to understand where we stand. The market is currently dancing to the tune of the FII flows; the consistent domestic SIP flows are providing the necessary cushion to the markets. Given that the SEBI defined bifurcation of top 100 Market cap companies as large cap companies, 101-250 as mid cap companies and residual as small cap companies, the flows are getting polarised to the top 100 companies and few of them are now trading at extremely expensive valuations. It is just the flow of liquidity that is justifying their prices at such stratospheric valuations. The polarised nature of the markets cannot sustain itself for long. As we stated in our previous newsletter, we are currently in the phase of transiting from phase 1 to phase 2 i.e. moving from start of a bear markets to end of the bear markets. In the short term various factors like liquidity and sentiment decide the course of the prices, given the on-going defaults, the aftermath of reckless lending by NBFC, weakening money multiplier all of these and such other factors did keep the stock prices depressed for whole of 2019. The dog has retracted many steps and it’s time for the master to pull the plug to keep it stable.

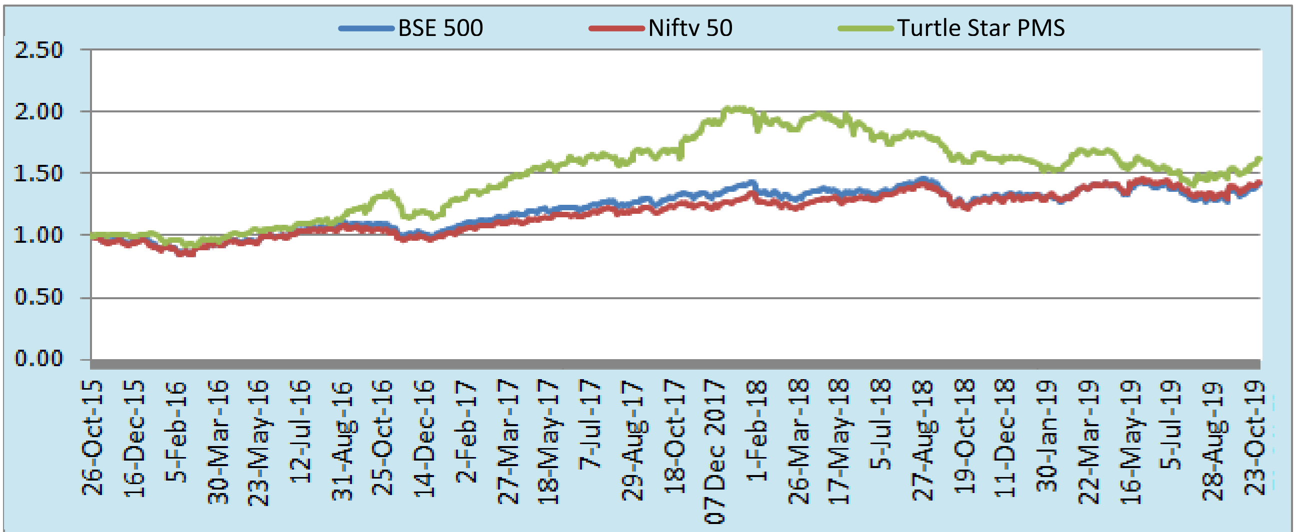
Moving to the second part. The government is exactly trying to do that by providing unheard incentives to prep up the economy. The attempts by the government of tax cuts amongst others shall take time to transpire to the last mile; however the direction is more important than where we are. The linear movement of the fundamentals / earnings is taking time to recover but the best money making opportunity comes when the night is darkest and sun is about to rise. India has seen one of the best monsoons in many many years. The three factors of that drive growth in India – B2C businesses could get a boost if sagging data keeps on pouring in and government takes a call to reduce the personal income tax, B2B business could see improved times in case NCLT cases get resolved and private sector gets on the capex mode, B2G business could get a shot in the arm in case few PSU are privatised. We can read all of them as the writing on the wall, given the environment it shall be not only one but all of them that could change the pessimist business sentiment and revive earnings.

From a portfolio standpoint – we have been invested in corporate banks, Gold Finance companies, Auto Ancillary stocks, our SIP approach in ideas we like has helped us to add quality at better price in this volatile times. An economic recovery would help us to generate better returns in the portfolio.

Warm Regards.

Sunil Shah

Portfolio Manager – Turtle Star.



NAV performance - Turtle Star 63%, Nifty 44%, BSE 500 41%

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