Should You Buy In A Panic?

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By Mayura Shanbaug

Do stock market panics offer a great opportunity to take positions for any long-term fundamental investor especially the value-investor? During panics there is selling across the equity spectrum. Traders sell in anticipation of actions from other investors. Such selling could result in significant divergence of market valuations from the underlying business fundamentals and intrinsic valuations. And therein lies the opportunity is the consensus of the experts. Mayura Shanbaug reports...

Value investor Warren Buffett's quote is a pointer, when he says "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful". So when the market is selling at a discount, value investors are buying and when eventually the market realizes the value and is ready to buy at or above intrinsic valuation value-investors sell. So, the bottom line is experts believe that panic situations are the best times to begin investing in the market, but one needs to remember that a longer term perspective is needed as the ability to hold on is important.

"It is certainly tempting to buy in the market when it is down, though one cannot be sure if this is a trough or there will be another one to follow," says D. R. Dogra, Managing Director & CEO, CARE Ratings.

Panic is associated with volatility and this is where stock market returns derive their strength believes Dogra. "While it is normally believed that one should buy in a rising market, the same holds in a falling market too depending on one's own perception of the market in future. If one believes that the India growth story is there and that things will look up in the next couple of years and we are taking a medium term view, then buying now makes sense," explains Dogra.
"However, for a short term player, there is greater risk involved if one is taking say a three months view where conditions are nebulous to make conjectures," he adds.

Hemen Kapadia, CEO, Chart Pundit echoes similar sentiments. "Yes, after more than two decades in the market, I think more often than not (not every time though), panic situations are the best times to begin investing in the market," he says, but cautions that no quick fix solutions can be envisaged as a turnaround could take its own sweet time.

"There is absolutely no doubt that Investors, especially, first time investors, who hitherto have zero exposure to equity should make the most of the panic situation in the markets and cherry pick stocks in times like these," reiterates Alok C. Churiwala of Churiwala Securities.

"The challenge is, however, they would need a lot of courage to do so as they would be acting contrary to popular perceptions and trends of the day. By reading reports, it is amply clear that the currently investors are "Fearful", so it's safe to conclude that the time is right for the first time investor to take the plunge," he says.

What are the safeguards for the investors?
Dogra feels typically an investor should take a medium term view of at least 2-3 years because if one is not a trader, taking positions on a short term basis is fraught with risk. Second, the sectors of interest should be studied and the prospects of the same should be gauged so that an informed decision should be taken.

Third, one should also probably look at the investment pattern of mutual funds schemes in the past and the returns obtained to get a fair idea of which are typically the companies where they invest. This could provide some guidance to an investor who is not too familiar with the market. Fourth, one should clearly have a diversification strategy in terms of how much of one's savings one is willing to put in equity. "The risk appetite should be established from the beginning itself so that one has an idea of the maximum loss in savings that could affect the investor," he says.

"At this stage, where markets are uncertain and the economy is faced with all kinds of problems, investors need to first assess their risk appetite. Next, they need to decide on debt or equity. Third, they should go in for diversification and choose stocks that are liquid and have performed relatively better than the others under adverse conditions, though admittedly past performance is no guarantee of future performance," suggests Dogra.

"Investing through mutual funds makes more sense to retail investors as they have more experience and can switch portfolios more easily than individuals and spread their risk," he says.

Dogra says it is a tough call depending on the time frame one is looking at to suggest the best picks. "Assuming one takes a long term call, we can look at banking, infrastructure and consumer goods to be good investments as in the long run these sectors have to perform to take India's growth to 8% plus," he says.

Hemen Kapadia suggests that an investor should spread their purchases, don't buy everything at one go as sometimes these panic situations last for some time and it would be prudent to buy in bits and pieces on every fresh round of panic.

"No matter what, don't do derivatives in such times (totally avoid leveraged positions).

Buy only fundamentally sound companies with priority on good management.

Look at diverse sectors for investment; don't put all your eggs in one sector.

Be patient, remember that form is temporary but class (in this case quality) is permanent," he says.

Kapadia suggests that one should invest via the SIPs (Systematic Investment Plan) route in one Blue Chip Fund, one Mid-cap Fund and one Gold ETF (just to make it safe) from a 5 year point of view or more. The "Markets are a minefield currently and only a high risk, nimble footed trader could make money, and so investors should invest and not trade," he adds.

Kapadia's picks are Capital Goods, Metals, IT and Banks in the same pecking order. And his stock picks are Reliance, SBI, IDFC, Tata Steel, Ab Nuvo, Tata Global, IndusInd Bank, L&T and Wipro.

"Would suggest investing only 10-15% of investable funds in the aforesaid companies in the current scenario and would progressively invest more (in the same companies) as the market declines further in the run up the elections. Would be fully invested just before the elections though," he suggests.

How ever according to Dr. VIkas Gupta, Executive Vice President, Traded Markets & Investment Research, ArthVeda Fund Management, Investors should not just look at percentage decline from its recent highs or fall during panic selling.

"Stocks which have seen speculative buying falls the most during panic times. Even after the decline such stocks may not be a good buy though they might look cheap based on their historical valuations. Clearly investors should be aware of such value traps during panic times," he says. "The only guiding principle is to look at the intrinsic valuation of stocks and buy with a margin of safety," he adds

Margin of safety is defined as discount to the intrinsic valuation and could range anywhere from 20%-50% depending on investor's comfort and risk in underlying business. Buying with a margin of safety prevents potential downside and generates significant return when market return to its senses.

Gupta feels that in a given current market scenario it is advisable that long term investors start deploying their capital in tranches. "It is not the time to exit the market but buy more of it. Existing investors should churn their portfolio from speculative investments into high quality stocks with long history of operations that are trading below their intrinsic valuation. They should avoid buying anything with high debt and focus on companies with cash rich balance sheets and professional management," he suggests.

Gupta thinks that at current valuations some blue-chip PSU companies from natural resources segment which are cash rich and have low leverage looks attractive. "ArthVeda is overweight on auto, natural resources and capital goods segment of the market," he says.

"The short term prospects appear volatile till the Elections are completed next year," feels Dogra. We have several issues like exchange rate, interest rates, inflation, fiscal deficit, current account deficit etc. which have influenced the stock market on a daily basis. Add to it the global uncertainties and the politics of the state, the market has become quite unpredictable, he says.

"Valuations still appear to be quite satisfactory today and it may be expected that when the economy is back on the growth path – which may be not before 2015-16, we could go back to the high growth path," says Dogra. "We can see the market then moving to a higher level with the Sensex probably consistently staying over 20,000 which could be the new norm then," he says.

On the other hand Kapadia is quite bearish - Would be shocked if the Nifty doesn't breach 5000', he says- in the short term. "I don't think the worst is over or is about to get over in the next few months. A negative spill-over is expected to the early part of the next calendar year," he says

"However, I am unequivocally bullish in the long term, I feel that we are in the last stages of a major decline which should exhaust itself sometime in 2014," says Kapadia.

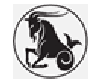
The equity markets have been corrective since November 2008 despite a few sectors and stocks hitting all time highs. "This might very well coincide with the elections next year and then the next four years could be quite bullish for Indian equities," he adds.

"In short run there is uncertainty in the market with regard to the Indian rupee and political scenario. However, in the long run such concerns are a non-event for the market," opines Dr Gupta. "We have seen this time and again – during the Asian currency crisis and also during last few elections. Markets tend to track underlying GDP performance of any economy," he says. During 2007-08 stock-market overshot underlying GDP trend but now seem to be in line again. "We are optimistic about long term GDP growth of Indian economy," he adds.

Alok Churiwala also shares the positive sentiments. With all these factors like fuel price hike, inflation, slowdown of economy, looming fears of a Sovereign Downgrade, at large, are enough to scare even the hardiest of Dalal Street veterans," says Churiwala. "But the one fact that investors can take hope from is that current valuations have factored in most of the above. While I'm not suggesting that the downtrend may not play out longer, but now is definitely a time to start," he says.

Churiwala asserts that as the Government seems to be biting the bullet, with three important bills have already made it through. It remains to be seen if the reform oriented bills like pension and insurance see light of day. "Once elections are announced, the pall of gloom that seems to be enveloping the markets currently may well lift," feels Churiwala. "Also we need to bear in mind that India, this year has had a good monsoon, and this will be the silver lining," he says.

Rules to follow...



New responsibilities at w ork keep you busy. You may be w orried about meeting deadlines. Some of you could face some opposition at w ork. Exercise restraint and avoid confrontation at all cost right now . Avoid hasty decisions. Perhaps you are pushing too hard. Relax and try to unw ind.

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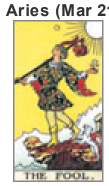

What the cards say: Confusion Path: Be alert. Don't be impulsive Ally: Virgo w ill be objective. Avoid the advice of Cancer w ho w ill justify anything Card for the w eek: Tarot key no. IX Justice. You w ill reap as you have sow n. If you have been just you w ill reap benefits. In the same w ay, if you have w ronged, then a nemesis is on its w ay

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Customer Service Prescription
Never throw the rule book at an erring customer.

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