

Finally, strength of character is required to take the plunge and buy what your original thought had uncovered, and valuation skills have proven to be an undervalued business. The last is where many good fund managers and investors fail. Even more strength of character is required to hold and probably buy more when the inevitable further drop in prices of your holdings happens. And to defend ones holdings to others—which fund managers have to do but fortunately, not individual investors—requires even more conviction.

At present, most individual Indian investors are still selling what they had bought several years ago and until recently was in losses. They are planning to first take those profits out and then take it easy for a few months. Many have no intention of getting into the markets immediately. They want to wait for “something” from the Reserve Bank of India, or the US Federal Reserve or the budget, which will tell them that it is the right time to enter the market.

Meanwhile, the foreign institutional investors are increasing their positions and own nearly half of the free-float of Indian markets. The Indian ‘herd’ is exiting and not willing to enter since the market is “too high” and the “time is not right”. It will enter sometime next year when it will seem that the market has no plans to stop and has given huge returns in the past 18-24 months. The ‘herd’ loves chasing past returns. Value investors had already invested in the past few years and are increasing their positions.

Valuations show huge swathes of inefficiency. However, they are not chasing the typical headline stocks or theme stocks. They are chasing rock-solid balance sheets and businesses at rock-bottom prices in ignored sectors or stocks in headline sectors. The interesting thing is that such companies are still available, and in abundance. These will be available even at the peak of a bubble, probably 3-5 years from now, albeit in fewer numbers.

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