THE ECONOMIC TIMES Kshitij Anand, ECONOMICTIMES.COM Jul 9, 2014, 12.44PM IST

Budget 2014 could turn out to be a 'sell-on-news' event; markets may fall 2-8% intraday

NEW DELHI: After a steep fall seen in the BSE Sensex post the Railway Budget, most analysts have trimmed their expectations from the upcoming Union Budget 2014 due on July 10.

Over the last few months, the markets have been discounting a sound, pragmatic and reform-oriented Budget which can kick start growth in Asia's third largest economy, but anything below expectations may turn out to be a 'sell on news' kind of event for the markets, fear analysts.

"The markets have been holding on well despite rising concerns of heightened crude prices and dry spell of monsoons so far. The Budget could turn out to a 'sell on news' event in case the Budget does not positively surprise the investors," said Shashank Khade, Vice President and Chief Equity Advisor, Entrust Family Office Investment Advisors.

"FIIs are also keenly waiting for the government steps to revive the economy. Since time-based correction has been in progress, the correction (if any) in the markets may be shallow," he added. Khade is of the view that investors can use dips as an opportunity to 'buy' into the markets rather than 'sell'.

The dream run for the Indian markets has already started with benchmark indices hitting record highs almost on a daily basis in anticipation of a reform-oriented Budget. Both the BSE Sensex and the Nifty have already rallied over 22 per cent each so far in the year 2014.

"With the steep rise that we have seen over the previous 10 days, we expect the markets to show more downside if the market expectations are not met," said Hiren Dhakan, Associate Fund Manager, Bonanza Portfolio Ltd.

"There's very limited room on the upside as the markets have already discounted a majority of positive cues at current prices. Thus, when the markets won't see much mettle in the budget coupled with fears of rising inflation in the short-term, we may see short-term corrections in the markets. The markets can show volatility anywhere between 2 and 8% intraday," he added.

The Narendra Modi-led NDA government's maiden Budget, due on July 10, is expected to lay down a broad roadmap to bring down fiscal deficit, boost growth and revive the investment cycle in Asia's third largest economy.

Now the big question is - how will the markets react on the Budget Day, July 10? If history is anything to go by, then the markets have fallen on the Budget Day of the newly-elected governments.

Performance going into the first budgets

	-1mth	-1 week	Election results to budget	Budget day	+1 week	+1 mth
2004	0%	3%	-2%	-2%	-1%	5%
2009	0%	1%	4%	-6%	-10%	4%
2014	5%	1%	5%			

Source: Bloomberg and Citi Research

Market performances leading into and out of the budget (1w, 1M) have been inconsistent and evenly balanced over the last decade, said a Citigroup report. This time, the 1-month lead is however the second-strongest over the decade - high election expectations have been rising even higher.
It's the defensives that are usually strong going into Budgets, but this time it's the risky lot such as discretionary, small & mid-caps.

"It possible for the markets to fall since, ultimately, economic theory dictates that information is already priced into the markets. Therefore, the markets would need to be presented with better than expected news in order to rally," said Raghu Kumar, co-founder, RKSV. "Being the maiden Budget under the current administration's rule, I cannot envision the government starting off its term on a negative note. Therefore, I strongly believe that the markets will rise based on the outcome of the Budget," he added.

What should investors do?

The Budget is an important event from the government perspective to demonstrate its pro-reform stance. Investors who are investing in equities need to take a broad call on bottoming out of the economy and remain invested with a 2-3 years perspective.

"One can identify stocks that are of high quality and are available below their intrinsic values. There are many such stocks in PSUs, IT and automobile sectors. One can identify the ones with low debt, high cash, and below normal earnings," said Dr. Vikas Gupta, Executive Vice President, Arthveda Fund Management Pvt Ltd.

"These companies can benefit from their earnings returning to normal, investment opportunities from their high cash balances and re-rating opportunities," he added.

The outlook for the next 9-12 months is positive for the Indian equity market due to better than earlier liquidity, rising contribution of retail investors and improving investment climate.

"I believe that India is going to enter in a new phase of business cycle after facing multiyear sluggish scenario of the past 5-7 years," said Tushar Pendharkar, Equity Strategist, Right Horizons Financial Services.

"In addition, the valuation of the Indian market has not yet reached its peak, which it had touched during the past bull market and the room for growth is significant," he added.

Analysts recommend investors to resist from undue and rampant selling if prices correct, as this would be short-term in nature and the markets would eventually follow their long-term bullish trend if the new government continues its good work.

Investors may be advised to stay away from sectors like metals, auto, capital goods and banking that have rallied steeply over the previous week, said Dhakan of Bonanza Portfolio Ltd.

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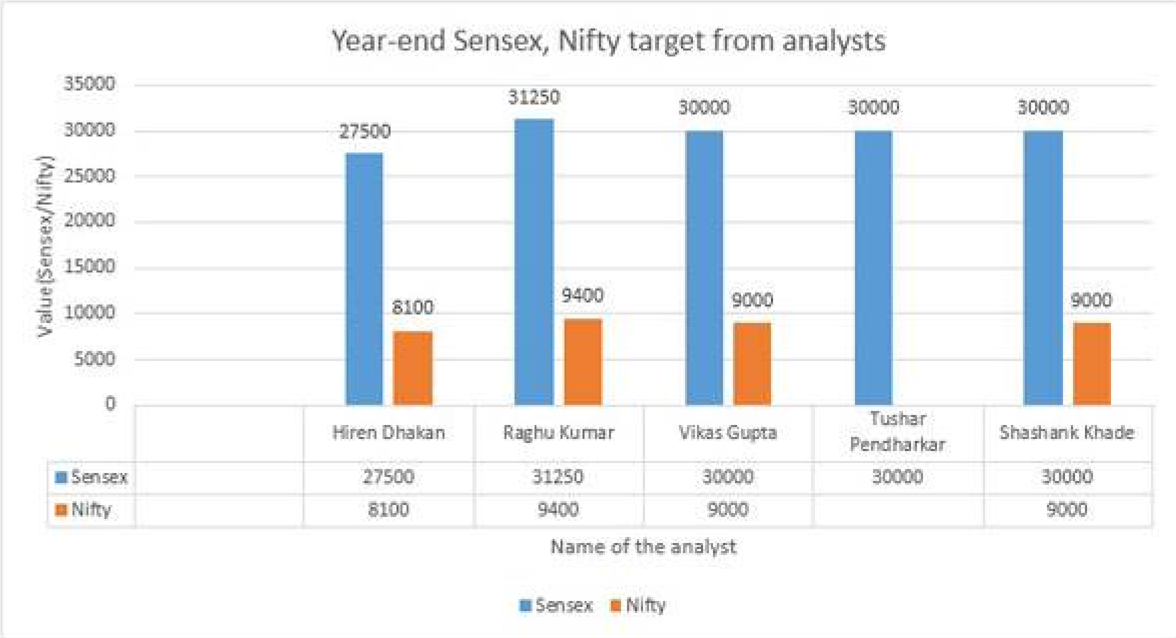
Investors shall also be advised to stay from taking intra-day positions into mid/smallcap stocks as these stocks move very swiftly and there are chances that you may find yourself caught against the tide with the only option to book losses, he added.

Year-end Sensex, Nifty target from analysts:



		Year-end Target	
Name of the analyst	**Organisation**	**Sensex**	**Nifty**
Hiren Dhakan	Bonanza Portfolio Ltd	27500	8100
Raghu Kumar	RKSV	31250	9400
Vikas Gupta	Arthveda Fund Management	30000	9000
Tushar Pendharkar	Right Horizons Financial Services	30000	
Shashank Khade	Entrust Family Office Investment Advisors	30000	9000