

Bull run still on, but markets are likely to remain volatile in April: Arthveda

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There are lots of companies available below their intrinsic value today, especially after the market fall, says Dr. Vikas Gupta, VP & Fund Manager, Arthveda Fund Management Pvt Ltd. In an exclusive interview with Kshitij Anand of EconomicTimes.com, Gupta says that investors should look at adding PSU mining and midcap IT stocks to their portfolio on every fall. Excerpts:

ET.com: What explains the recent sell-off in the Indian markets? Two weeks ago everyone was blaming it on the dollar strength, last week it was the US Fed activity and this week it is F&O expiry and geo political concerns. So what is the real reason?

In my opinion, the reason is that a large number of market participants are 'trend followers', especially on the long side. So, as long as long-term investors keep coming, the market keeps inching up and the trend followers piggy-back on it. However, as soon as there is any kind of slowdown in inflows from long-term investors, the trend followers suddenly get caught since the market has suddenly changed trend rates and their targets are not achieved.

Most of them trade on leveraged instruments and margins and hence any trend reversal immediately impacts them with high magnitude losses. So, these participants try to move out on trend slowdowns before trend reversals happen and hence a trend rate slowdown gets transformed into a trend reversal in a self-fulfilling prophecy.

There are, of course, numerous reasons for a trend rate slowdown, including the simplest reason being that long-term investors might have taken significant positions and might be evaluating what they want to buy next or how they want to reorganize their portfolio before increasing further allocations.

ET.com: The Nifty has gone down from the levels of 9000 to sub-8400. What could be the absolute bottom for this market, another 5-10%?

We cannot predict market bottoms. As value-oriented investors we think it was a great time to buy undervalued securities before the market fall. After the market fall, we think there are many more companies available below their intrinsic value. So even now we think it is a great time to buy.

ET.com: Do you think emerging geo political concerns will take oil even higher and the bull market that we saw on the back of falling crude oil prices comes under threat? Where do you see oil header in the next 6-12 months?

We don't think that the bull market is being driven by lower oil prices, although they are an important factor for the economy in terms of lowering inflation and putting more consumption money in people's pockets.

The Indian economy and its participants are used to higher oil prices and adjusting back to higher prices will not be too difficult. The bull market is driven more by undervaluation so far and the expected economic growth over the next few years.

ET.com: After a muted March, how do you expect April to pan out for investors? Or, is the market expected to head lower given earnings disappointment from Q4?

We cannot speculate on where the market could move in April. However, the estimates already show that earnings are not that high and hence that view is incorporated in the markets. What is happening right now and will continue happening is that people who do not look at fundamentals and valuations and only at trends are going to go with the trends and take bearish positions.

But the fundamental-oriented money from sophisticated investors, including long-term domestic institutions, FIIs and HNWIs, are going to



"Investors should look at adding PSU mining and midcap IT stocks to their portfolio on every fall," says Dr. Vikas Gupta of Arthveda.

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keep buying.

ET.com: There is one trend that we have witnessed in the month of March and that is 'sell on rallies'. The Indian markets are selling off on an intraday basis whenever there is any kind of good news. Does that worry you? And, will April be any different?

It is not a cause of worry for us. For us, in fact, any market fall is a great time to buy since it means cheaper stocks. We are net buyers and a buyer into equity markets should love lower prices.

ET.com: Mutual funds are buying heavily into the market after remaining net sellers for two-three years. Do you think retail investors are making a comeback with vengeance after burning their hands in the 2008 financial crisis?

Yes, over the past few months retail investors have woken up to the fact that the markets are a good place to make money. Also they always react to historical performance. Now since the last one year has been a 30% returns period, they are interested in entering. We don't think there is anything wrong in entering even now. The market is at fair to mild undervaluation overall and very large portions of the market are significantly undervalued.

ET.com: From an earnings perspective, where do you see the surprises and the disappointments?

Lower commodities and oil prices have led to inventory losses in some cases. This has led to decreased earnings. We would not classify this as a disappointment at all. In fact, that is a great indicator for higher earnings potential in the mid-term until the low commodity and oil prices last.

Earnings in any particular year or quarter are not important as far as there is no significant impairment in long-term earning power. We have not seen any evidence of impairment of long-term earning power of the companies. In fact, most companies are yet performing below their normalized earning power. Once that kicks in, suddenly the valuations ratios will start looking cheap.

ET.com: What are you buying for the long haul? Your top five stocks that investors can BUY for the next 6-12 months?

We are buying everything from the perspective of long-term. Especially, PSU mining and midcap IT stocks. However, we think that the midcap IT stocks could become fairly valued within 12 months or so once the US economy starts showing more strength and hence the dollar does too on the back of it and the FED rate hike.

Following are some of the buys:

- > Mphasis
- > Zensar Technologies
- > Sonata Software
- > NMDC
- > Coal India
- > MOIL
- > Apollo Tyre
- > Goodyear Tyre
- > HT Media
- > Jagran Prakashan
- > Indraprastha Gas
- > Piramal Enterprises

ET.com: Give me one investment mantra (can be more than one) for retail investors.

Always look at the value of the stocks you own and not their market prices. Are you buying stocks at low valuation ratios, i.e. price to earnings below 20 and price to book below 3 and in exceptionally high quality companies below 5? Are you focusing only on low or no-debt, high-cash companies? Are you diversifying with some large dividend yielding companies with yields of more than 3%?

ET.com: What is your call on the banking sector? Are they dragging the markets lower? Most of the PSU banks are sitting at 52-week lows. Does that mean that investors have lost faith in the PSU banking lot?

We haven't liked banking for a long time and until the NPAs have been worked out and the new capitalization has happened, we will not be very keen on it. However, we do not deny that there can be a few stocks in the sector which are worth analyzing carefully and buying.

We don't know what it means in terms of investor psychology, but definitely some investors in that space have realized that things are much worse than they thought when they bought.

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