THE ECONOMIC TIMES

May 16 alert! Don't sell now, odds favour a market rally, say experts

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NEW DELHI: The euphoria ahead of elections results cannot be ruled out in the markets. We have moved higher in the past couple of months, with benchmark indices gaining over 6 per cent since March 2014.

The recent run-up seen in the Indian equity market and the good show put up by the rupee suggests that the markets are pricing in some probability of a BJP-led NDA government coming to power at the Centre.

In this light, what should an investor do who hasn't participated in the rally at all?

The rally seen so far is more broad-based, fuelled by strong buying by foreign institutional investors (they've invested over $5 billion so far in 2014), and the retail investor has largely remained out of action.

Analysts are of the view that the markets are likely to remain volatile ahead of the poll outcome, but for those who have not participated in the rally can look at accumulating stocks on dips.

Analysts are betting on the fact that equities as an asset class will become more attractive in the next couple of years for retail investors which are about 6-7 per cent of the total investor community in Indian markets.

"I believe markets are discounting a scenario where NDA forms the government with Modi as the Prime Minister. So, investors should not look at shorting markets in the month of May as there is still some more upside left in markets and that is an opportunity which would be lost by those who sell now and go away," said Sanjay Sinha, Founder, Citrus Advisors.

"Not only that, given the volatility in the markets - it is also an opportunity for number of investors to realign their portfolios either sectorally or in terms of asset allocation," he added." Sinha is of the view that the 'Modi' factor has not fully played out in the market and it will play out only post the 16th of May.

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Looking at the opinion polls showcased by various media houses there is a strong probability of a stable government. In fact, brokerage firm Nomura sees a 75 per cent probability that the BJP-led National Democratic Alliance will secure a solid enough plurality to pull together a majority coalition under the leadership of Narendra Modi.

In the run-up to election results, the market could end -up being volatile in the short run. There is a high possibility of a positive upside post-elections, and investors can look at returns of somewhere around 20-30 per cent in the next two-five years.

In order to remain safe from the worst outcome investors can deploy about 60 per cent of the capital now and remaining 40 per cent post elections," said Dr Vikas V Gupta (Head- Research & Product Development) at ArthVeda. This would only provide investors with sufficient capital to buy further if election outcome is negative, he added.

"We think that over the next five year one could expect a 30 per cent return per annum from the market if one invests at current market valuation," Gupta added.

Going by the trailing P/E or PB numbers of the market; 2007-08 had seen exuberance where investors were madly buying into any stock that was traded in the market. With Nifty index levels of around 6,300; the market was then trading at 25x price to earnings ratio and 6.0x price to book ratio.

Considering today's scenario (6 years post the exuberance) when the market levels are near around same levels, the PE ratio has fallen to 19x trailing PE and PB of nearly 3.0x. Besides, the GDP and underlying business fundamentals have increased significantly.

So, if one were to go by the history, the current entry valuation look significantly attractive and an investor can expect long-term returns.

Considering today's scenario (6 years post the exuberance) when the market levels are near around same levels, the PE ratio has fallen to 19x trailing PE and PB of nearly 3.0x while the GDP and underlying business fundamentals have increased significantly.

"We have done some analysis in terms of how the market reacts post any election and we have gone back in time, looked at data right from 1980 onwards till date. We have seen close to about nine general elections during this period and it is really surprising to know that in seven out of the nine instances we have seen the markets delivering a positive return within two years of the election," said Sanjay Chawla, CIO, Baroda Pioneer AMC.

"That positive return is as high as 20 per cent on a CAGR basis. It is difficult to predict what will happen and we have not seen any significant statistical link between what happens two-three months before or after the election," he added.

Chawla is of the view that in the long term, the returns are as high as 20 per cent.

"The market had rallied very significantly before the elections. I would say that if the market peters out, this is the time to invest and look for an opportunity to come back into the market."