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Missed the massive rally on Sensex? Here’s what experts say you should do

NEW DELHI: Bulls are clearly ruling the Dalal Street and this is evident from the fact the S&P BSE Sensex pierced the psychological 28,000 level for the first time ever in trade on Wednesday.

The S&P BSE Sensex, which has already rallied over 32 per cent so far in the year 2014, has some more room on the upside, say analysts. So, investors who have missed out on the massive rally need not worry and should look to enter the markets on dips, they say.

Analysts at top brokerage firms firmly believe that we are in a bull market, which will take the Sensex and the Nifty to fresh record highs for the rest of the year as well and in the next 12 months. The index is well on its way to hit the 30,000 mark by the December-end and probably 35000 levels by the end of 2015.

"The Indian stock market is in a strong bull run and investors should hold long positions and trail stop losses, while fresh investors should use every small dip to enter in a long position," says Rohit Gadia, Founder & CEO, CapitalVia Global Research Ltd.

"By the year-end we are expecting the Nifty to test the levels of 9000 and the Sensex to test the levels of 32,000. This bull run is majorly supported by positive domestic and global cues," he adds.

There are many positives that are working for the Indian markets. Apart from stable macros, recent announcement of BOJ stimulus plans also helped the rise.

According to experts, the announcement of the additional stimulus package from the Japanese central bank is a positive news development for India, and with macros situation well balanced, India stands out compared to other emerging market economies.

The fall in crude is supportive for the Indian economy and is positive for OMC pack, as it will help meet the fiscal deficit target. And with the rate cycle set to reverse and more reforms getting implemented, the Indian markets may well be on top of list of FIIs despite global concerns.

What should investors do?

Have you ever heard the phrase 'The trend is your friend'? Yes, investors should look at opportunities to enter markets or buy quality stocks on dips, considering the fact that the trend is still on the upside.

"Yes, the momentum is going to continue. The general rule of thumb when it comes to mark trends is this: don't bet against the trend unless you know something that the market doesn't know. And, more likely than not, you don't have information that the market has not already priced in," says Raghu Kumar, Cofounder, RKSV.

The tide is so strong upward that at some point, consolidation is bound to happen and investors will begin booking profits at the slightest sight of negative news, and this is the time when new money can come in, which is waiting on the sidelines.

"We might see a month or two of sideways movement, but that being said, the upward movement is based on sound fundamentals (GDP growth, low inflation, stable currency, strong government reforms, consumer confidence) and not mere speculation. That's what makes this a special case," adds Kumar.

Kumar is of the view that if reforms are properly implemented and the US does not raise interest rates earlier than expected, we can expect the markets to appreciate 15-20 per cent next year. This means the Sensex can hit 36,000 by Oct 31, 2015.

Where to invest?

One thing which investors should understand is the fact that the markets are not hitting new highs due to speculation, but due to the fundamental soundness in the economy.

A rising GDP, low inflation, controlled currency and a CAD that is being closely kept under control coupled with a reform-based government are prominent factors which kept the momentum going for the markets.

Betting on economic recovery, most experts are of the view that cyclicals, financials and pharma will be the sectors to watch out for in the next 12 months. Cyclicals more so because of the reform push by the government.

Apart from that, companies that focus on an online-only model that leverages technology, mobile, and the internet are going to do wonders.

"Our two favourites are IT and the pharmaceutical sector. On the consumer discretionary side, there is little more optimism. The consumer staples have been fairly sort of slack in the last quarter," says Arvind Sethi, Managing Director and CEO, TATA Asset Management.

"In terms of infrastructure, we like cement because if some of these big roadway projects, etc, get going, they will put up the demand for cement and these companies will benefit immediately," he adds.

Analysts are also positive on banking stocks as they are among the best plays on the overall economic revival story and lower interest rate scenario.

"In the banking space, we like both private and PSU banks as inflation is likely to come down going forward and this would be followed by lower interest rates. Lower interest rates are expected to act as a positive catalyst for the economy in general and the banking sector in specific," says Dinesh Thakkar, CMD at Angel Broking.

"We also prefer stocks in the automobile and auto ancillary space owing to recovery in sales volumes," he says, adding that, "further, we are positive on cement stocks as well, on expectations of a revival in GDP growth and more specifically, a pick-up in infrastructure and construction activity."

How to scout for value picks?

To scout for value stocks we must first understand what 'value' stands for.

For finance academics and most finance professionals, a 'value stock' is a stock which has either a low price-to-book ratio or low price-to-earnings ratio or low price multiples of other fundamentals, such as, sales, cash flow, EBIT etc.

Dr. Vikas V Gupta, Executive Vice President, Traded Markets and Investment Research, ArthVeda Fund Management Pvt. Ltd, lists out five steps to search for value stocks:

Step 1: Filter our all companies with sales less than Rs 250 crore. Companies with sales lower than this are very small companies and might not have the business stability and access to finance that is required for a safe investment. So we will select companies with sales equal to or greater than Rs 250 crore.

Step 2: Filter out all companies with debt to equity greater than 30%. Companies with low leverage are safer.

Step 3: Filter out all companies with interest coverage ratio of less than 4. Companies with high interest coverage ratio are good.
Step 4: Filter out all companies with ROE less than 15% since they are earning less than their cost of capital.
Step 5: Filter out all companies with PE ratio greater than 25 since they are too expensive even for a high-quality company.