THE ECONOMIC TIMES

24 Nov, 2014, 04.46PM IST

Multi-year bull run: how to scout for value stocks in rallying markets?

NEW DELHI: Analysts at top investment firms are of the view that Indian markets are in a multi-year bull run supported by market-friendly policies initiated by Modi-led government, strong macros and stable currency.

Indian markets have already rallied over 33 per cent so far in the year 2014, but many stocks in the small and mid cap space have doubled or even tripled in the same period.

So, the next logical question is how should investors scout for value stocks?
So far in 2014, benchmark indices have outperformed most of the emerging market peers and indices across the globe. In the broader market, the mid-cap index has advanced 52 per cent and the small-cap index has jumped 73 per cent.

Still, there is enough space for markets to advance over the next three to five years. "Right now, we are trading at roughly 16 times (price to earnings or PE ratio). In my opinion, no bull market has ended before 20-25 PE and we are still at a reasonable distance," said Prashant Jain, chief investment officer and executive director, HDFC Mutual Fund.
Sankaran Naren, CIO, ICICI Prudential Mutual Fund says that his investment philosophy is to look at the investment cycle. There is a good scope to make money over the medium to long term by betting on the cycle.

"If people want to invest for the short-run particularly for less than one year, I think there is a scope for them to be disappointed, but for three to four year horizon, we are very bullish. If you made a mistake in selection, sit on it for the next three years," he adds.

Naren is of the view that for the short-term, the theme is fixed income. Fixed income is very easy to play with a 12-15 months horizon. In equities, the best three themes according to us is banks -- there will be a leverage cycle, Utilities -- because we are very bullish on interest rates coming down and third is technology - because of strong dollar.

Value investing is probably the only consistent way of timing the market. The correct way to gauge the right time to buy is when the market is pricing a stock significantly below its conservatively estimated intrinsic value based on a conservative projection of cash flows and an appropriate discount rate, i.e. buy with a huge margin of safety.

"Buy good companies with decent pricing and sleep over it. Then you do SIP in mutual funds; this will deliver great returns. Some of the companies in the newer segment of economy which received funds from PE and VCs are now looking for public funding," says Nilesh Shah, MD & CEO, Axis Capital. "These companies will provide fantastic business opportunities. Valuations always question of debate but I am sure they are far better business models and if you acquire them at right price, it will create lot of opportunity," he adds.

The participation of retail investors in the Indian equity market is yet to happen, but analysts are also not giving up on the idea that it will not happen at all.

"I think the next year also should be a good year for Indian markets. It will be over 20 per cent returns kind of a year. So there are a few caveats in terms of the government staying focused," says Pankaj Vaish Head of Markets, Citi South Asia.

"I think they (government) will stay focused with a good budget. Interest rates will also be a very important component. That is where the next kick should come from," he says.

Do not try and time markets:
Investment managers always advice investors not to try and time markets, because the success rate is very low and traders or investors end up losing money. While the right way to invest is accumulate stocks on dips or when the stock dips below their intrinsic value.

"Extensive studies exist which show that hardly any traders get this right. Probably 0.1 per cent of all traders are able to do this and it is highly unlikely that they can sustain that performance for long periods of time," says Vikas V Gupta - Executive Vice President at ArthVeda Fund Management Pvt. Ltd.
"Value investing is probably the only consistent way of doing this. Investors should sell when the stock is close to its conservatively estimated intrinsic value. An investor consistently doing this is going to come out ahead in the long-term, i.e. over a full bull and bear cycle," he adds.

Investors should be cautious and not try to beat the markets every day or even every year. They should just stick to buying when they can find stocks below their intrinsic value.

"Anyone who can do that (Sell high and buy low) consistently is a magician! However, there are several strategies investors and traders use to aim for this. One way is to flow with the market trend, using technical charts to try and identify market or stock turning points," says Jayant Manglik President Retail Distribution, Religare Securities Limited.

"My personal advice is to not try and time markets. One should use established products like Systematic Investment Plans for investment into the index, stocks or mutual funds," he adds.
"And this should be preceded by a comprehensive plan on asset allocation based on your risk profile and investible surplus," Manglik explains.