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# Time for investors to prove their critics wrong in markets

**Mahesh Nayak** January 20, 2014

"I would lose my job for saying so, but the fact is retail investors never make money."

I was surprised when one of India's most consistent fund managers said this to me, commenting on the declining retail participation in mutual funds. After five years of average performance, the BSE Sensex has surged in recent months, touching a new high in December. But not many small investors can boast of having made much money from it.

Data of the last 13 years shows that whenever the price to earnings (P/E) ratio falls, investors move out of mutual fund investments. So too, they always enter in droves when the market trades at a higher P/E. In 2008, for instance, the mutual fund industry received an all time high inflow of Rs 52,701 crore.

That was when the one year forward P/E of the market was trading over 20 times. Today, when the market is trading at 14 times forward, it is witnessing an outflow of over Rs 14,300 crore. Retail investors don't seem to realise that when the P/E is high, there is every chance of it falling. The opposite is true when it is relatively low - that is when they should invest if they want good returns, and then remain patient for a while.

| Year* | Sensex | 1 yr forward (P/E) | Equity MF Net Inflow (in R crore) |
|---|---|---|---|
| 2008 | 15644 | 20.4 | 52,701 |
| 2009 | 9709 | 12.1 | 4,084 |
| 2010 | 17528 | 17.2 | 1,456 |
| 2011 | 19445 | 17.5 | -11,795 |
| 2012 | 17404 | 14.7 | 504 |
| 2013 | 18836 | 14 | -14,371 |
| *as on March 31 | | | |

Though investors' short sighted behaviour is the main reason for their poor returns, the mutual fund industry too hasn't done much to give them confidence in it. Fund managers' investments too have not always been wise. According to a study by Arthveda, a Mumbai-based fund management firm, only 12 per cent of India's 49 large cap funds have been able to beat the benchmark (Nifty 50) in the last five years. In the last 10 years, just 30 per cent of the 23 large cap funds outperformed the benchmark index.

And yet the fact is that had one invested Rs 100 in the market in 1979 - when the Sensex index was at 100-by the end of 2013 one would have earned over Rs 21,000. In comparison, even assuming an interest rate of 10 per cent, Rs 100 kept in a bank fixed deposit would have earned Rs 2,800 in the same period.

Forget the fund houses and funds. If only investors moved out of fixed deposits and invested in the market for a reasonable amount of time, they would do better as, on average the index has delivered 15 per cent return annually. It's time for investors to prove their critics wrong and make a new beginning by investing in the market and keeping their faith in it. Patience will always reap benefits.

Last week, *Business Today* wrote about **the themes that** would play out in 2014, among them that PSU companies would soon declare handsome dividend payouts. Already Coal India, Oil India and ONGC have done so.

The fall in the inflation rate with the wholesale price index (WPI) easing to a five-month low of 6.16 per cent, along with some global events helped the BSE Sensex gain 1.5 per cent last week. The US's tapering of quantitative easing has been discounted by the Indian market as not being large enough to matter significantly. The US is still to increase its interest rates (the biggest respite for our markets). Thus market players are confident that the impact on the rupee will not be much in the near future. Until a new government is formed at the Centre after the General Elections in May, the markets will stay focused on corporate earnings and foreign inflows. Whether India is able to attract the same FII inflows this year will largely depend on the outcome of the elections.

Meanwhile, the World Bank has predicted India's GDP growth to rise to over six per cent in FY 2014/15, and then to 7.1 per cent by FY 2016/17. In the next two weeks the RBI's monetary credit policy and the Federal Open Market Committee (FOMC) event will be keenly watched. In the coming week, the focus will be on the FII flows, rupee movement and December quarter corporate earnings announcements.

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