Top five investment mantras on what stocks to pick in a volatile market

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NEW DELHI: After witnessing a strong rally in the calendar year 2014, benchmark indices have turned volatile in the year 2015, weighed down by both domestic as well as global factors.

The S&P BSE Sensex has plunged nearly 1000 points since February. The fact that the markets sold off on good news, both domestic as well as international, does not inspire confidence in the markets.

The selling also has not been accompanied by heavy Institutional sales. Based on current cues, the selling or the profit booking in the market seems to be likely to be limited to March, and April may not see such a vicious down move.

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"There have been only 6 instances since 1996 when the Sensex has declined sharply after a 5% or more sell-off in the previous month," says Ravi Shenoy, Vice President at Motilal Oswal.

"Three of these 6 months have been post the Lehman crisis in 2008 and 2 in the post Y2K scenario in 2000. Baring a global cue, we do not currently see a continued sell-off in April," he adds.

But despite the headwinds, analysts are of the view that investors with a long-term horizon can still make money in this market with the right approach.

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," says Dr. Vikas Gupta, VP & Fund Manager, Arthveda Fund Management Pvt Ltd.

"The market is at fair-to-mild undervaluation overall and very large portions of the market are significantly undervalued," he adds.

We have collated recommendations or investment mantras from top experts for volatile markets:

Do not put all your eggs in one basket:

"The great mantra given by Mr Warren Buffet -- do not put all your eggs in one basket - is valid in the current market scenario also," says Vivek Gupta, CMT - Director Research, CapitalVia Global Research Limited.

He further adds that neither on bull side nor on bear side investors should be on the winning side, and for that buy on dips is the right strategy.

Make investment for long term (3-5 years):

Before making any investment decision, homework is must, says D K Aggarwal, CMD, SMC Investments and Advisors Ltd. Investment in the equity market should be done only with a medium to long-term horizon, i.e. investment for at least 3 to 5 years.

Investors should invest only in companies with strong fundamentals. These are the ones that will withstand market pressures, and perform well in the long term, he adds.

Buy undervalued business:

"The investment mantra followed by us and which we think retail investors should follow when they are deciding to invest in individual

stocks is to buy a business which they understand," says Amit Nigam, Head - Equities, Peerless Funds Management Co. Ltd.

"Once a business is identified, then follow it up with an understanding of the particular company's business model (operating in that business), management bandwidth & integrity, and earnings trajectory (hence valuations) going ahead," he adds.

Buy Right Sit Tight:

'BUY RIGHT SIT TIGHT' is something that investors need to do after having picked up the stocks that are right for their risk-reward profile," says Ravi Shenoy, CFA, Vice President, Motilal Oswal Securities Ltd.

"A good business needs to be given time to grow and hence investors need to be patient to realize the full potential," he adds.

Choose stocks with a PE below 20 and PB below 3:

Always look at the value of stocks you own and not their market prices. Dr. Vikas Gupta, VP & Fund Manager, Arthveda Fund Management Pvt Ltd, recommends investors to ask these questions to themselves before making an investment.

a) 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?

b) 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%?

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