How to play markets in the run up to election results in May 2014?

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NEW DELHI: The month of May is likely to remain volatile and wild swings can be expected on May 16 - the day of Lok Sabha Election results, say analysts and brokers who are also seeking permission to extend trading hours on the same day to shield them from volatility.

Brokers have sought permission from the Securities & Exchange Board of India (Sebi) to extend trading hours on the stock exchanges on May 16 - the day of Lok Sabha election results, said an ET report.

They have also sought approval to keep the markets open on May 17, a Saturday, a day when stock markets are usually shut, added the report. Brokers want more time to deal with the possible volatility around the election results.

In the last 2 election years, 2004 & 2009, the stock market actually gained in the months immediately after the results. So it is best not viewed as a normal year (2014).
It will be important to concentrate on the unfolding trend in front of us both politically as well as economically, say analysts.

A large part of analysis is based on scenario assessment and derived probabilities. And at this point in time the most probable scenario is that NDA will form the next government based on most opinion polls. Investors should use any dips to increase their equity allocations or exposure to equities.

"Each dip or correction from here on is an opportunity to enter, accumulate or add to a stock portfolio. But if risk minimisation is the most dominant factor then any sizable buying can be put off till after May 16," said Tarun Dang, Managing Partner, Trend-Wise Capital Management.

"We are in the early stages of a fresh wave upwards in a bull market. We will concentrate on sectors that are known to lead the early phases on a bull market," he added.

Correction in markets is always healthy sign especially after steep gains in short time. It gives an opportunity to investors who have got left behind

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Dang is of the view that Capital goods, Banking, Energy and Infrastructure look very promising and one can look at frontline stocks within these sectors for their long term portfolios.

At this point in time we are not very keen on FMCG or IT but that does not mean that these will suffer. Just that we see better promise in the sectors mentioned earlier, he concludes.

Correction in markets is always healthy sign especially after steep gains in short time. It gives an opportunity to investors who have got left behind can come and ride the tide.

"Investors who are over-allocated to liquid, fixed income and debt should start allocating to equities. They should put a significant portion of their funds before the election results given the high probability of the markets going up in response to a stable election mandate," said Dr. Vikas V Gupta (Head- Research & Product Development) at ArthVeda.

"If the mandate is fragmented then there could be an opportunity to put in the remaining funds and that way one can hedge their investment timing before and after elections to gain from either outcome," he added.

Given the fact that, Nifty has already rallied over 500 points since March, investors who haven't participated in the rally may wait for some more days to see the election outcome in mid of May and then position themselves accordingly.

"Investors must ensure that if their portfolios haven't risen with the rise in markets, then there is something wrong with stock selections. It is always better to sell those stocks and utilize the proceeds for building new portfolio," said D K Aggarwal, CMD, SMC Investments and Advisors limited.

"It is better to be in the capital goods, banks, thoroughly researched mid cap and small cap stocks," he added.

According to analysts, investors should reduce their positions in high beta stocks which have already gone up quite significantly on expectations of NDA led government at the Centre. And it looks like most of it is already factored in most of these stocks and further rise looks limited.

"In my view one could reduce the weight of high beta stocks, which have already gone up in last two months rally, and keep the defensive kind of stocks in the portfolio," said Tushar Pendharkar, Equity Strategist, Right Horizons Financial Services.

Pendharkar is of the view that after 16th May, room for further rise in case of high beta stocks looks limited; however the downside could be significant in case of unexpected results

"IT, Pharma, FMCG and Media could provide a better support to portfolio because of their defensive nature; while Auto, Engineering & Capital Goods, Banking & NBFCs and Real Estate & Infra stocks could be vulnerable towards unexpected election results and weak monsoon," he added.

As per analysts, the next big threat could be the weak monsoon, which could offset the recent rally; therefore, it would be better to book profit and keep the money in defensive stocks.

"Investors should avoid penny stocks as they will only bring you grief. Before investing, analyze the financials of the company and do not panic with short term fluctuations in the market," said Jayant Manglik, President-retail distribution, Religare Securities Limited.

"As May 2014 stock price movement will largely be event based, any adverse news could deteriorate the sentiment. Focus on fundamentally strong companies like ITC to ride out such times," he added.

Why investing in equity will be beneficial?

Recently, Indian equities witnessed a strong rally due to increased FIIs inflow, stable macros and expectations of a possible change of guard at the Centre in the upcoming Lok Sabha results due in mid- May.

The future movement after 16 May will be based on the formation of a stable government. However, the likelihood of a short, steep correction in case of unfavourable political outcome seems much higher.

Once the new structure of the government is discounted by the markets, it may start to look forward and go beyond the election date and investors should use dips to gains equity exposure, say analysts.

"With under-exposure of equities, the investors should remain status-quo on election results. Any disappointment which leads to market correction should be used to add to equity allocation," said Shashank Khade, Director & Chief Equity Advisor, Entrust Family Office Investment Advisors.

"The reason for increasing equity exposure is that India' economic situation has improved considerably with fiscal deficit, current account deficit levels looking acceptable," he added.

Khade is of the view that rather than worrying about politics, improving economic condition shall be a reason to own more of equities.

Ahead of the election results, investors should not hurry in booking profits but look at equities more from a longer term investor' perspective which will offer better opportunistic view point.

"For Nifty investors getting a portion invested before election results is important. Keep in mind that there is no one can forecast the result of an event in the future, i.e. the elections and their impact on the markets or the returns of any investment strategy in the future," says Dr. Vikas V Gupta of ArthVeda.

"Value investing is a philosophy which is robust to all likely potential scenarios and gives one the best results possible given the presently known information while reducing risks," he added.

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