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Broker's Best

DIPEN SHAH
Senior Vice President
Kotak Securities

Proper Homework Is Advisable

Cautious approach is likely to give better returns in the longer term. Good research backed by better valuations is always advisable before investing in companies.

We feel that, markets in the near-term are likely to remain range-bound. However, over the next 6 – 9 months, the markets may provide decent gains of about 15 per cent.

We are cautious in the short-term because of local as well as global factors. Local factors like monsoon and interest rates will be the factors to watch out for. On the global side, we need to assess the emerging situation across economies in Europe and China.

A normal monsoon will be a big respite for the economy and consequently, for the markets. Normal monsoons may ease food inflation and increase consumption. To a certain extent, it may also ease interest rate pressures. However, we need to keep a close watch on the non-food inflation, which has started rising. The RBI has also expressed concerns on the rising non-food inflation. We opine that, in case non-food inflation sustains at higher levels, the RBI may have to increase interest rates at a faster pace.

The global scenario will also play an important role as far as sentiments are concerned. The downgrade of Greece to junk status by S&P is a setback on the recovery track that we are moving along after the recessionary pressure two years back. The ratings of Portugal and Spain have also been downgraded. Thus, the international scenario is not looking cozy at this point of time.

We put a lot of emphasis on the valuations. If we go by the valuation, then we are presently quoting at around 17 times based on FY11 consensus estimates. However, we still do not have adequate visibility on FY11 numbers.

Therefore, we feel once the markets start getting visibility for FY11 and start looking at FY12, then they may start moving up. We will have more visibility over the next one quarter as the monsoon scene becomes clearer. Also, by that time, we will have more clarity on the international scenario. These are the major reasons for which we feel that the market may remain range-bound in the near-term.

We are playing our bets on sectors like capital goods, construction, IT and banking sector. We feel that the credit growth is likely to pick up going forward, which is likely to bring in some positive sentiment for the banking sector. Construction and capital goods sectors are likely to benefit from the emphasis on the infrastructure sector by the government. Some select IT stocks may perform as there is some revival of demand for the IT services. Any sharp rupee appreciation is a risk for the IT sector.

We are always of the view that an investor with a long-term view creates wealth. We still stick to that principle and suggest the same now also. Valuation is prime criteria like mentioned before, while investing in a stock. We believe that the investor should buy stocks having good valuations and backed by a good track record. It is advisable that we track the basic details of the company and the management before investing. Doing some research on the stock is always advisable before investing, rather than investing based on rumors.

(As told to Dalal Street Investment Journal. The magazine may or may not subscribe to the views expressed in the article. You may send your feedback to comment@dsij.in)

RANGE-BOUND MARKETS

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GO FOR INFRASTRUCTURE

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