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A Rally And Its Lessons

Why some companies and mutual funds missed the recent rally at the bourses

THE SURGE IN THE STOCKMARKET FROM MID-MAY onwards has left in its trail some steady horses and also burst some egos. Not all index stocks have come even close to matching the sharp rise in Nifty, Sensex and other main indices. Also, a majority of equity schemes of mutual funds have been caught napping as their net asset values lag behind their benchmark indices.

In *BW*'s stock-taking of 100 stocks belonging to 50-stock S&P CNX Nifty and 50-stock Junior Nifty, stocks that missed out on the May-June rally throw up an interesting fact — 70 stocks outperformed the Nifty index (which rose 37 per cent in 1 May-22 June compared to March-April) and the balance 30 lagged behind.

While the largest outperformers include stocks such as HDIL, Suzlon Energy, Unitech, Kotak Mahindra Bank and ICICI Bank, the top 10 among the laggards (see 'Missing The Bus') are populated with stocks from mainly three sectors — fast-moving consumer goods, pharmaceuticals and power.

The three underperforming sectors were defensive in the bear market, and had fallen considerably lower than the rest of the market at its peak during August-October last year. This meant their price-to-earnings ratio was higher than the rest. "When the market bounced back in May this year, the bulls went and bought all the growth stocks from other sectors that offered decent value compared to the defensives," says Dipen Shah, vice president-private client group research at Kotak Securities. Says Deepak Jasani, head of retail research at HDFC Securities. "The faster stocks fell last year, the faster they rose this year, and vice-versa."

Company-specific reasons are also seen in the laggards list. Uncertainty with regard to the Taro Pharmaceuticals deal has affected Sun Pharma. A high fuel subsidy burden has bogged down BPCL, and Tata Communications has been hit by sluggish growth.

Professional fund managers from the mutual fund industry have done worse. In a three-year analysis done by Benchmark Mutual Fund, the only mutual fund to offer only passively-managed index funds and exchange traded funds (ETF), this fact is borne out.

Benchmark Mutual Fund compared the performance of 60 large-cap, more than-five-year-old schemes with that of the Nifty Benchmark Exchange Traded Scheme (Nifty BeES), an ETF that tracks Nifty. The daily difference of funds' net asset value of every trading day (from May 2006 and up to 19 May this year) with their values exactly three years ago, were compared with the similar difference of Nifty BeES.

The results would rattle most fund managers. From early 2008 onwards the funds have been consistently underperforming the market. The trend has become the most accentuated since late last year (see 'Mutual Funds Lag Behind').

So, what should an investor do? Analysts advise against trying to time the market; instead, one should invest little amounts of money regularly. Also, investing in a mix of actively managed and passively managed index funds and ETFs will be a good idea. The lesson: don't get carried away with the stockmarkets rally.

Rajesh Gajra

MISSING THE BUS

Some heavyweights in Nifty & Junior Nifty indices have missed the recent rally

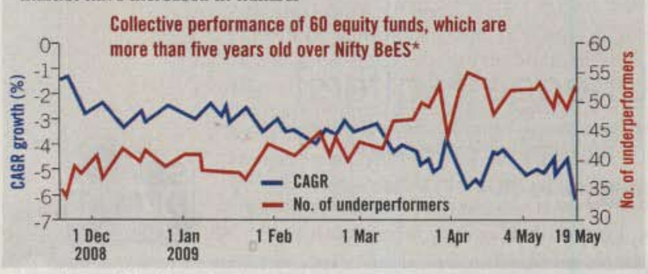
Weighted average price* (Rs)

	Mar- Apr 2009	1 May - 22 June	Change (%)
Tata Comm	522	512	-2
Hind. Unilever	233	239	2
Glaxosmit Pharma	1133	1177	4
Cipla	221	236	7
ITC	180	192	7
NTPC	184	210	14
TCS	545	629	15
Power Grid	96	113	18
Sun Pharma	1097	1294	18
BPCL	368	440	20

*Traded value divided by no. of shares traded Source: *BW* research

MUTUAL FUNDS LAG BEHIND

Over the past eight months, equity funds underperforming the main market have increased in number



*An exchange traded fund that tracks Nifty Source: Benchmark Mutual Fund