

# Press Clipping

Publication : Financial Chronicle  
Date : Monday, November 3, 2008  
Edition : Mumbai  
Page : D (FC Invest)

## Building base for the next bull run

VRISHTI BENIWAL &  
ANAND RAWANI

**T**HE domestic equity market, which has gone through a phase of high volatility and lost over 50 per cent since January this year, is all set to enter a dull phase, during which the benchmark Sensex is likely to form a long bottom in the range of 9,000 to 10,000, market observers say.

There have been two instances in the past 20 years when the Sensex had lost around 50 per cent from its peak and formed a long-term bottom. Going by history, the BSE benchmark index may remain stagnant for quite some time, unlike the last nine months when it has been highly volatile.

Prasanth Prabhakaran, senior vice-president and all-India broking head at Kotak Securities, says, "Sentiments in the equity market are negative and the market is likely to remain stagnant for some time now."

Stagnation in the equity market is not new. The Indian stock market went through a similar phase between 2001 and 2003 too. And market experts generally describe this as a consolidation phase. From an investor's point of view, a volatile market is better than a stagnant market. For, there is always an opportunity to make money in a volatile market. In fact, broking firms mint more money in a highly volatile market than normal conditions.

But a stagnant market can be very frustrating and investors as well as intermediaries often lose patience and interest during such phases.

A phase of stagnation usually comes in when the broader index, Sensex, comes down by around 50 per cent or more from its pinnacle. For instance, after touching the 4,467 level on April 22, 1992, when the 30-stock benchmark index had fallen to 2,037 on April 26, 1993, it remained at these levels for a long time. Similarly, after touching 5,933 on February 11, 2000,



**WAITING FOR THE BULL:** There have been two instances in the past 20 years when Sensex lost 50% from its peak and formed long-term bottoms

when the Sensex fell to 2,600 on September 21, 2001 (a fall of more than 50 per cent), the benchmark remained stagnant at that level till the end of 2003.

On January 8 this year, the Sensex touched 20,873. Thereafter, it fell around 51 per cent to reach 10,239 level on October 10 and crashed further to touch 7,697, which was 63 per cent lower from its peak.

"Seeing the historic trend, we

believe the Sensex is now likely to keep swaying between 50 per cent and 55 per cent, which is around 10,436 and 9,392," says a Mumbai-based broker.

In the last few days, the Sensex has shown some sort of strengthening on the back of various government steps to stabilise the market. But many brokers feel while these measures can lift the market in the short term, they are unlikely to trigger

a long-term bull run very soon.

Market analysts say after going through wild gyrations, the Indian market now look set to enter the consolidation phase, which is a natural but, often eventful, process. Over-leveraged companies and firms with weak management simply die a natural death or become prone to takeovers during such times.

Market experts say a consolidation phase is actually a base-building process for the next bull run, and sectors, which are going to lead the next bull run, also emerge from such process. It is very rare that the sectors, which were in the forefront of the earlier bull run, will lead another market surge after a meltdown.

For example, during the last bull run of 2003-2007 while Infosys managed to touch the highs of 2000, most other firms were not even able to reach 50 per cent of their price levels that they had touched in 2000. While the consolidation process is a phenomenon witnessed in equity markets worldwide, the time-

frame for a consolidation process is different for different market. It usually depends on the macro-economic picture of that particular economy.

If one looks at the Indian picture, the current correction has been partly due to the expected slowdown in growth of Indian Inc and partly due to unwinding of over-leveraged positions of some hedge funds. As the price correction has been very sharp and a large part of the bearish news has already been built into the prices, it is likely that the consolidation process will be comparatively shorter this time around. Once the liquidity situation improves in the international market, the Indian market should once again move into bull phase from the consolidation mode. But as the problem has started from the international market, the first signs of an end to this painful process will also have to come from that part of the world.

vrishtibenival@mydigitalfc.com