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'Retail investors should stay away for near term'

Analysts see turbulent times ahead in the short-term

Tania Kishore Jaleel
Mumbai, July 1

The bears are creating havoc on Dalal Street as both the Sensex and the broader Nifty have breached their crucial levels of 13000 and 4000 respectively on Monday.

The benchmark index, the Sensex, closed 500 points lower than its previous close at 12961.68 and the Nifty closed 3.71 per cent lower at 3896.75. Both the indices have fallen close to 40 per cent from their peaks in January. Surging oil prices, rising inflation, high interest rates and political uncertainty have led to investors selling stocks across the board.

NEGATIVE FACTORS

So what should the retail investors do now given that the markets have fallen to such low levels? Marketmen say retail investors should stay away

from the markets at least for the near term even as foreign institutional investors (FIIs) have sold about Rs 25,690 crore in the last six months. Mr Sridhar Sivaram, Executive Director at Morgan Stanley, feels that the retail investor has to determine his/her own time horizon for investments. If it is short term, then the markets could be very choppy, as there are a number of macro economic headwinds, like higher inflation, rising crude oil prices and higher interest rates.

"The retail investors should just stay away from the equity markets as of now as the markets will fall further and there are too many negative factors around that are unfavourable especially for those looking at investing for the near term," said Mr Sanjay Someshwar of Ventura Securities.

Even if they do invest with a short-term perspective, they should invest in small amount and avoid mid-cap and small-cap stocks, said Mr D. Kannan, Executive Director, Kotak Securities.

IDEAL OPPORTUNITY

Mr Alex Mathew, Head of Research at Geojit Financial Services Ltd, said that retail investors should avoid stocks that are ruling below 52-week lows or those stocks that are trading below their 200-day trading average. "Volatility and uncertainty always give an advantage to investors who invest in equities for the long term. These times will once again prove to be an ideal opportunity. This too will pass, but will test everyone in the market. Invest in phased manner over the next few months, but with a long term horizon of

at least 2-3 years," said Mr Praadeep Kumar, Fund Manager-Equities at Lotus India AMC.

Has the market bottomed out? Marketmen say that they expect the markets to fall further. Mr Vijay L. Bhambwani, Chairman, Bhambwani Securities (P) Ltd, said that he expects the Sensex to fall as low as 10500 in the near term. "The markets will remain under pressure unless crude prices reverse and inflationary pressures eases," added Mr Kannan.

Mr Sridhar, however, feels that from a 12 to 18 months outlook, the markets appear good, as the valuations look reasonable. "Market valuations at around 12.5x, one year forward earnings, are very attractive, considering a 20-25 per cent earnings growth prospect over the next one to three years," added Mr Kumar.