

Issue 16 - Skepticism has now become pervasive in the market.

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**Sanjay Sinha, CEO - L&T Mutual Fund****What has led to this suddenly bearish sentiment all over again?**

There is this growing feeling that the market is not going anywhere...this was the situation till the end of February before we saw that rally in March. That rally was obviously looked at with lot of skepticism by local investors. I say that because it was getting reflected in the shrinkage in volume in the secondary market and net redemptions in mutual funds.

So, in that background, when we stepped into May, we found that globally the number of issues to deal with is enormous...whether it is geo-political as to what is happening to the Middle East and North Africa or whether economic (the European debt crisis). In that background, skepticism has now become pervasive.

The general view is we could see another downside of as much as 10%.

That would be subject to an event risk. I don't think with whatever you have by way of valuations or by way of liquidity pressures, there could be much downside to the current level. There could be a downside of about 2-3%, which is not very significant. If there is an event risk and that event is unforeseen today, that might cause larger harm.

What according to you are the triggers?

I think monetary policy brought into open something we had in our hearts, something we felt we may not necessarily meet. The fact that the Reserve Bank of India, for the first time, gave a number of 7.4% as GDP (gross domestic product) growth outlook brought those fears in front of us. And the (policy rate) hike of 50 bps (basis points, or half a percentage point) was very aggressive from the expectations point of view. High interest rate environment is not conducive for growth because it affects not only demand but also margins.

Are you investing at this level or are you just sitting out? Or have you made some structural changes to your portfolio?

When you are making your portfolio, it has to be a combination of certain defensives to insulate the portfolio from a very large downside. Therefore, there is an element of FMCG (fast moving consumer goods) and an element of pharma that we have in our portfolio. And that proportion has gone up slightly.

But now, it is time to play the contrarian. I think bearishness had a significant impact on the banking sector, and also (on) some of the other rate sensitives. I think you need to take a call taking into perspective what is going to happen next. Will the rates go up from here by the same percentage point as it has gone over the last six months? Second, what is going to happen with commodity prices? If China is going to grow at a slower pace, global growth is at risk. Then, I think, commodity prices outlook would also be that of moderation. So, taking these two points of views, I think it's time now to play the contrarian

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So, what are you contrarian on?

We will begin to accumulate more of banking and financials. We are also now increasing exposure to other rate-sensitive (sectors) such as auto. We have been slightly bearish on commodities for the last few months and that stance doesn't change immediately.

Why is that?

Commodity prices are going to moderate. You may not see the impact on stock prices right away, but they will end up impacting commodity-linked stocks.

I think the way I would play would be on the medium term. I would try to insulate my portfolio by taking some of the defensives. If I play on the long term, I would now start playing the contrarian and take more rate sensitives into the portfolio. I think the strategy should be to accumulate and not just fill up your portfolio.

Many experts say another 75 bps hike is in the offing in terms of interest rates. Are you of that view?

Fifty to 75 bps is likely. I believe that 75 bps, on the upper side, would be where we would end with the rate hike scenario that we have been seeing over the last 15 months. If inflation is going to moderate, thanks to commodity prices moderating worldwide, I think it is also going to signal a rate environment which will be softer.

How do you see His (foreign Institutional investors) behaving?

The selling that we see in India is largely a proportion of emerging markets selling that is being done by the FIIs. And the better performing emerging markets are those linked to commodities. Look at Russia, Brazil; they are fairly leveraged to commodities. So, in the first flush of selling, we have got our selling as part of emerging markets portfolio. But if you see as to how India behaves in a soft commodity environment, India behaves divergently vis-a-vis the rest of the emerging markets. That divergence is going to happen over the next couple of months. So, while we had to suffer this flush of selling, you should see money coming back to India more as an India allocation.

If you were to go slightly more medium to long term, say 18-24 months, from a retail investor's point, is it a good time to enter the market? What kind of returns can a retail investor expect?

If you look at the *Bloomberg* estimates for Sensex earnings for FY13 (fiscal 2013), it is somewhere close to about 1,450-1,500. As you know, historically, we start discounting the next year earnings when we come close to the end of the calendar year. So, as we approach closer to the last quarter of the calendar year, we start discounting FY13 earnings. And if you discount by, say 15 times, you would still have an index level which would be above the previous level. We are talking about an index perspective of say 22,000 points in about 12 months from now. I think potential returns compensate you for the risk.

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