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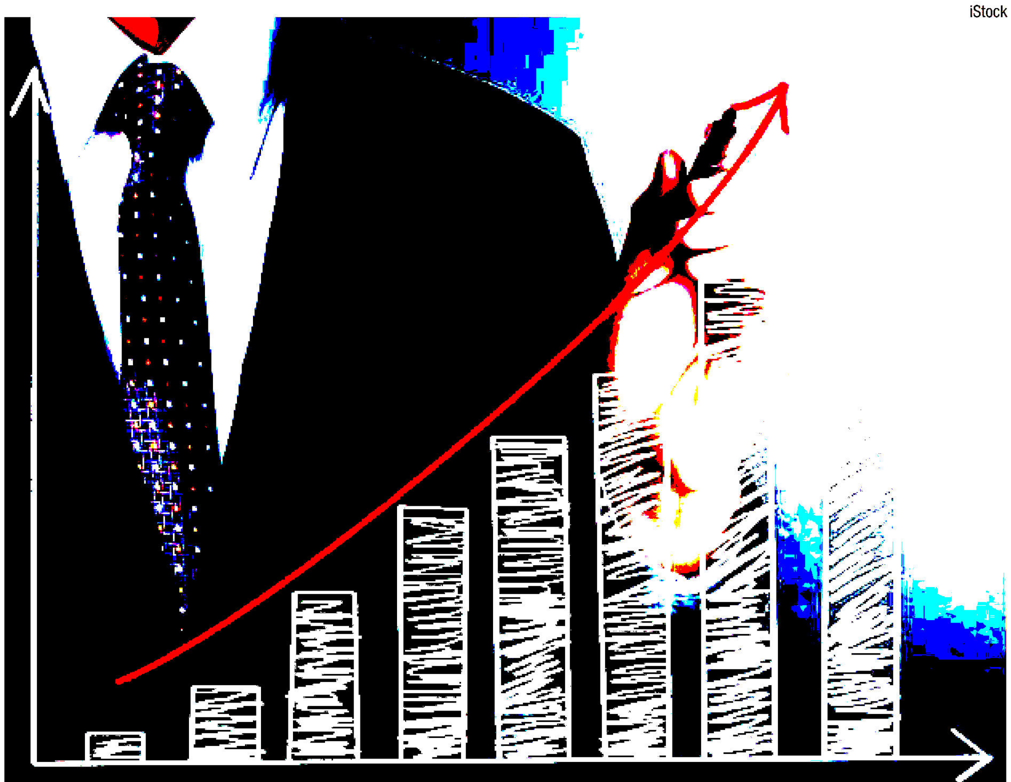
Sensex at 39,000: should you invest?

Don't have fear of missing out on the rally. Ignore the market levels and stick to your asset-allocation



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Mumbai: Just a few months back, the mood in the stock market was gloomy. The resignation of the then Reserve Bank of India Governor, worries about the upcoming Lok Sabha polls and credit issues linked to IL&FS bankruptcy indicated a bleak short-term future for the Indian equities. But then something incredible happened. A rally started. It has been fast and fantastic, to say the least. Foreign portfolio investors pumped more money in March than they have ever done in the month in nine years. The Sensex hit an all-time high a few days ago and is flirting with the 39,000 mark. People, including retail investors, who were waiting for the elections results, find themselves yet again on the sidelines. The fear of missing out (FOMO) is playing out. Should you invest now? Should you wait more? **DNA Money** tells you.

Reason behind the rally

Before deciding whether you should invest or not, let us first look at the reasons behind this stock market euphoria. Some are attributing the rally to hopes of improved corporate profits. Some reason the strength of the rupee against the dollar. Others reckon it is a pre-election rally, that is, markets are going up in anticipation of a favourable outcome in Lok Sabha elections. What is that favourable outcome? There is no clear consensus on it.

On equity market scaling new all-time high, B Gopkumar, ED & CEO, Reliance Securities, said: "Markets are seeing a pre-election rally with the Nifty scaling an all-time high on the back of improved optimism following sustained Foreign Institutional Investor inflows. A stable rupee and expectation of an interest rate cut have also helped drive markets. However, from here on earnings will be the key as we get into the results season. Healthy earnings could push the market even higher, but disappointments will pose a challenge."

Choices galore

An important point to consider is where to invest. There are two buckets in terms of choices. In terms of the first bucket, you have cyclicals pitted against defensives. Cyclical stocks or portfolios work in cycles. So if you catch one in an upward cycle, there is money to be made. Defensives work when there is fear, and so people throng towards the strongest and safest of companies, that is, defensives.

The other bucket is value versus growth. Value stocks or portfolios are where the current price does not capture the higher intrinsic value. Growth stocks or portfolios are all about buying investment opportunities that show strong trends of growth. "We continue to believe that the new financial year would offer moderate returns at the index level and therefore the continuous search for new segments that can outperform the market. In that context, favourable macro conditions for 'value' and 'cyclicals' to outperform will provide greater market breadth this year vis-a-vis 2018," says Tata Asset Management, chief investment officer-equity, Rahul Singh in an investor note.

Getting high on markets

Some experts feel the Indian stock market will likely see newer highs as time passes. Valuations will remain high too, they say. Focusing on global worries can be harmful for portfolios and cause investors to make mistakes that result in significant lost opportunity, says Sunil Sharma, chief investment officer, Sanctum Wealth Management.

Five years ago, the Nifty PE rose above 20 times, there were worries about China debt, the US business cycle, Brexit, Italy, demonetisation, Public Sector Undertaking Non-performing assets, etc. Yet the PE has persistently stayed elevated, and the Nifty 50 has delivered an 85% total return during the past five years, call it 16% CAGR, far surpassing returns from alternative classes.

"Clearly, skeptics will argue that the move has been driven by valuation expansion and limited earnings growth. That is a valid point at the index level. But valuations have stayed elevated on visible long-term growth, structural reforms, and declining inflation. With low inflation, real yields are attractive and will sustain markets alongside low inflation and rate cuts," says Sharma, adding that with strong multi-billion dollar commitments by foreign investors, it is likely the market hits new highs.

Ignore levels, invest for yourself

Whenever the market soars, investors often fall into the dilemma of whether to invest at current levels or quickly book profits. In such a scenario, it's important for investors to stick to the basics and not try to time the market. "Irrespective of the market fluctuations, it's prudent to remain invested and continue investing, in order to timely achieve set goals. In case you haven't invested yet, it's better to begin investing as soon as possible instead of waiting for a market correction to happen," says Naveen Kukreja, CEO & Co-founder, Paisabazaar.com. Opt for SIP (Systematic investment plan) route of investment for investing in mutual funds as it will average out your investment cost in case of a market correction. "SIPs regularly invest a fixed amount at a preset date and fixed frequency, which is decided by the investor. Regular investment through SIPs also instills financial discipline and helps in timely achievement of the target corpus," he added.

Asset allocation

A simple way to avoid all this noise and hoopla is to stick to asset allocation. This means dividing your investment money in a range of asset categories, for example, stocks, bonds, cash, gold, etc, in a manner that you are exposed to each, but never over-exposed to one. It has been asset allocation that drives the long-term returns of an investor. Markets will go up or down, but all the asset classes do not react in the same way at the same time. If one goes up, the other goes down.

"Instead of deciding asset allocation on your own, you can choose the right investment vehicle to do it. For instance, there are dynamic asset allocation funds that help do this job. You as an investor put in money, and the fund manager decides what he/she does with it. In this way, you do not need to choose the right allocation in each asset class. You do not need to rebalance portfolio with frequently changing market dynamics. You can invest without getting affected by market noise and biased opinions," Tarun Bhatia, a Delhi-based financial investment planner.

STICK TO BASICS

- Some reasons for the rally are improved corporate profits, strengthening rupee, anticipation of favourable outcome in elections
- **Market is likely to see newer highs, valuations will remain high too. So it is not advisable to time the market. Your asset allocation will drive returns in the long-term**