

Unhappy 2015 for investors

Market experts believe investors won't be disappointed if they stick around for another 18-24 months

JOYDEEP GHOSH

"Our main challenge is to hold on to our investors for at least 18-24 months. We feel things would be much better by then and investors would not be disappointed in equities," says the chief investment officer of a leading fund house - a stark difference from what fund managers said a year ago.

Fund managers weren't too worried in 2014, as it was a year of positive surprises. For the first time in half a decade, real returns from both debt and equity had turned positive. Only hoarders of the yellow metal were seeing red.

The euphoria continued till the first quarter of the calendar year. And then, the mood changed. Whether it was fear of a Federal Reserve rate increase, which finally happened on December 16 or delay in passage of key bills in Parliament, slowdown in China or overall weak sentiment, the stock market wasn't able to go anywhere.

Of course, most fund managers would say one year is too short for gauging the stock market or a mutual fund's performance. Says Prashant Jain, chief information officer (CIO), HDFC Mutual Fund: "While the majority focus on a near-term and on one-year outlook for equities, it is actually far more profitable to focus on the long term."

Shankaran Naren, CIO, ICICI Prudential, quoting value investor James Montier, explains the difficulty in building a portfolio in such market conditions: "There are many times you don't know what to do. But, you create a portfolio as though you know what to do. Nearly 18 months ago, crude oil was at around \$100 per barrel. Last year, (it was) around \$55. Today, it's at \$40. No one said then that crude would fall so sharply."

Though the Reserve Bank of India (RBI) did its bit by cutting the repo rate, at which it lends to banks, by 125



SUNIL SINGHANIA

CIO (equity), Reliance Mutual Fund

"Investors have matured. They have been investing in equities systematically and consistently, which is the best strategy. There are opportunities across market caps. However in a growing economy, smaller firms tend to grow faster"



S NAREN

CIO, ICICI Prudent Mutual Fund

"Investors should opt for proper asset allocation. You will automatically allocate more to equities when they are inexpensive. We recommend equity hybrid/dynamic asset allocation funds"



PRASHANT JAIN

CIO, HDFC Mutual Fund

"Several initiatives that have or are being taken may show good results in 2016. The outlook for equities is good given the reasonable valuations and the likely improvement in profits after several years of weak growth"

systematically and consistently - the best strategy. They should continue with it."

Adds Naren: "One of the lessons for the investors is to continue building a portfolio through proper asset allocation in all circumstances. When you follow asset allocation, you will automatically allocate more to equities when these are inexpensive, and that's what you always have to do, buy more when equities at bargain prices. It's why we have been recommending equity hybrid/dynamic asset allocation funds for some time now."

What is keeping fund managers positive is that despite a slowing, Indian markets have outperformed most emerging markets. "Our view is 2016 should be much better, as we head into a scenario where the full benefits of low crude oil prices and excellent macros play out," adds Singhania. Most believe the early part of 2016 will continue to be painful and expects muted market returns because of the lower crude prices and US rate increase.

"But, as domestic investors, we are easily among the best economies globally. The rupee is well-behaved. The domestic economic is seeing gradual recovery. One factor I would monitor closely is signs of revival in capital expenditures through rising spending on cement, capital goods, and so on. Once this begins, we may begin to see more favourable market conditions," says Naren.

Agrees Jain: "The outlook for the economy is improving steadily with each passing day. Several initiatives of the past and those that are underway are likely to show good results in 2016. The outlook for Indian equities is good - given the reasonable valuations and the improvement likely in profit growth after several years of weak growth, driven by one factor or the other."

So, where do these fund managers see value? While Singhania sees value in smaller companies because he thinks that in a growing economy, smaller companies tend to do better, Naren is seeking value in large caps. His reason: Over recent months, as there has been some selling by foreign investors in large-caps, we have seen prices correct significantly here. At the moment, mid-caps valuations have gone up considerably. The valuation gap between mid- and large-caps is at its highest level in the past year. Relatively, there is good value in the large-cap space.

Investment experts believe that it is a good time to build a portfolio, as these are good times to buy for the longer run. "I would say, by building a good portfolio now, investors will have a very good experience over the longer term," sums up Naren.

basis points, bond yields did not react accordingly. Therefore, prices of bonds did not rise as sharply as expected.

The numbers reflect the depressed sentiment. After rising about three per cent in the first quarter, both the Sensex and the Nifty fell between one per cent and five per cent in the next three quarters. Consumer Price Index-based inflation was at 4.28 per cent in December 2014, compared with 5.41 per cent in November this year, bringing down real returns on

bank deposits (State Bank of India's one-year bank deposit rate) from 4.22 per cent to 1.84 per cent. So, even debt investors wouldn't be overly happy. Gold, in which investors find refuge when equities are not doing so well, continued its bad run. The yellow metal is down almost ₹1,500 per 10 gm in the past year.

Of course, there were some bright spots but they were far and few. For example, pharmaceutical funds, which have returned 23 per

cent in the past year. The next best were the category average returns of small-cap funds at 13 per cent. And debt funds returned between seven and 8.5 per cent.

The good news is that fund houses haven't really seen loss of folios despite a slow 2015. Says Sunil Singhania, CIO (equities), Reliance Mutual Fund: "2015 was a flatish year in terms of absolute returns. Investors have matured and become smart. They have been investing in Indian equities

AFTER MARCH, THINGS WENT DOWNHILL

	Mar 2015	Jun 2015	Sep 2015	Dec 24, 2015	Mar 2015	Jun 2015	Sep 2015	Dec 24, 2015	
Nifty 50 Indices									
Nifty	8,491	8,369	7,949	7,861	Returns	2.12	0.83	1.12	2.03
Returns	2.51	-1.44	-5.01	-1.11	S&P BSE Smallcap	10,890	11,075	11,021	11,731
Nifty Midcap 100	13,001	13,010	12,985	13,337	Returns	-1.77	1.7	-0.49	6.44
Returns	3.32	0.06	-0.19	2.72	Gold				
Nifty Midcap 50	3,374	3,212	3,201	3,367	Domestic (₹/10 gm)	26,520	26,560	26,230	25,460
Returns	0.3	-4.78	-0.35	5.17	Returns	-1.7	0.15	-1.24	-2.94
Nifty Smallcap	5,623	5,324	5,233	5,603	International (\$/oz)	1,184	1,172	1,115	1,073
Returns	6.65	-5.32	-1.7	7.07	Returns	-0.1	-0.95	-4.89	-3.81
S&P BSE Indices					CPI inflation (% y-o-y)	5.25	5.4	4.41	5.41*
Sensex	27,957	27,781	26,155	25,839	SBI one-year deposit (%)	8.5	8	7.5	7.25
Returns	1.67	-0.63	-5.85	-1.21	10-yr govt bond yield (%)	7.74	7.86	7.54	7.75
S&P BSE Midcap	10,592	10,680	10,799	11,018					

Figures are quarter ended, * as on Nov 2015, returns are QoQ in per cent
Sources: Exchanges, Bloomberg

Compiled by IS Research Bureau