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Use weak market to build right portfolio

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The month of September 2018 was challenging for Indian equities. At a time when the market was grappling with the rise in oil prices and depreciating rupee, the IL&FS crisis has come as a big blow for the Indian equity markets. The Nifty 50 Index corrected nearly 900 points from the peak of 11,760 to 10,860 levels.

While markets corrected sharply on the back of worsening macros, what took the D-street completely unaware was the IL&FS default. After all IL&FS debt paper was 'triple-A' rated till about three months back and was rated as 'D' overnight following the defaulted in its payments in the past few days. IL&FS crisis by any means is not a small crisis for our country and it can have contagion effect on other financial companies, if the government, regulators and other shareholders don't come to their rescue.

The fact that there was no immediate solution for the IL&FS crisis spook nervousness in the market and we saw the brutal fall in the entire non-banking finance companies space, including the banking sector, which all these years were trading at expensive valuations. D-street doesn't like uncertainty and, therefore, investors need clarity and confidence that the government and other shareholders have failed to give. Rumours and margin calls by various brokers and financiers continued to create further cut in stock prices. Interestingly, these are the same marquee NBFC names, which were the darling of the D-Street till about a month back, and on any correction of 2-4% used to see huge interest in their stock. But, today, the same NBFC space has seen the worst of the selling with the stock prices on an average having corrected up to 30- 50%.

Greed and the fear

Until August 2018 it was the greed that was driving the market to make new highs. Today it's the fear that is dragging the market. Liquidity and sentiment along with earnings drive the market to either side. While there is some sense of uptick in corporate earnings, there is complete lack of confidence given the liquidity problems.

In the current situation it's wise to stay out of the market. A trader can trade with thin stop losses. If one is a long-term investor then this market will give enough time to build the right portfolio. There is surely lot of panic in the market and return of capital is in everybody's mind rather than return on capital. Let the dust settle in the market before making any fresh investments.

Meanwhile the US Federal Reserve as expected has once again hiked rates hike on back of continuous growth in the US economy. Bond yields continued to rise, and back home Indian market too is ready for rate hikes. One should expect volatility to continue given that October 2018 is the earning season. We expect Nifty 50 index in October 2018 to trade in range between 11500-10500 level.

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