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'In Equity Markets, One Has To Be Patient'

By A K Bhattacharya | 12 Nov 2024

'While investors need to be prepared for making some losses, they should not lose big money chasing euphoria amid fear of missing out.'

Devina Mehra, founder, chairperson, and managing director of First Global, in a fireside chat with **A K Bhattacharya** at the *Business Standard* BFSI Summit, spoke about the risks involved in being invested in the equity markets at a time when investors are losing money.

What's your stance on the Indian markets now in the backdrop of the recent developments?

I think largecap stocks are unlikely to see a sustained correction, but there is froth and overvaluation in select mid and smallcap stocks.

Indian equities have given 15-16 per cent returns since the Sensex came into existence around 40 years ago.

While equities are inherently volatile, we tend to forget this in practice.

Markets are not volatile just on a day-to-day basis, but variations are high even on a longer duration as well.

In 2010-2020, we compounded just over 8.5 per cent. In essence, we got fixed deposit types of returns over a decade.

If any investor had put in Rs 100 in equities back in 2011, they would have got Rs 230 in return in the next 10 years.

In 1980, if anyone would have put Rs 100, they would have got Rs 700 in the next 10 years.

This below par performance is what created the bull run seen since the Covid lows in 2020.

If you look at the largecap mainstream indices, we are still not above the trend line.

The risk of a sustained crash is when one is far above the trend line, which we are not yet.

Market corrections on the last few occasions usually have been in double digits in the last 16 to 18 years.

However, the fall from the peak levels in a lot of indexes has not been in double digits yet. That's the nature of equity markets.

If you go back in history, 1994 to 2003 is the only period in Sensex's history when the returns were zero.

Between 2003 and 2007, the markets went up 6x as a part of the bull run in global equities.

In equity markets, one has to be patient. If things are a little uncertain, it does not make sense to get out.

While there are risks to being invested in the equity markets at a time when they are falling (people end up losing money), there are risks to not being invested and missing out on the opportunity.

Investors need to have risk control mechanisms in place to limit losses/downside, if any.

If one misses out on an investment opportunity for just 10 days in a span of 40 years, it takes away two-thirds of the returns.

If you miss out on 30 best days for investing, which is less than a day per year in a span of 40 years, you miss out on 90 per cent of the overall possible returns.

From a sustainability point of view, how do you see the Indian markets? How far are they from attaining sustainability?

If you look at history, we are not very far away.

There was a time when there were not many financial sector companies in the Sensex. Now, they have the largest weight.

Similarly, public sector companies. There were a lot of PSUs in the Sensex at a point in time.

Sectorally, while we are not at the low end of the PE multiple, we are not at extreme highs as well.

While investors need to be prepared for making some losses, they should not lose big money chasing euphoria amid fear of missing out.

While price-to-earnings (*PE*) is a crude measure to gauge market froth, the overall market PE is not too extreme.

India has been an expensive market, but we are still not in the dangerous category.

To what extent does the US market's move influence Indian markets? How big is the China factor?

For the Indian markets, foreign flows have not mattered much.

One needs to figure out the correlation between foreign flows and how the markets have behaved.

Data suggests that there is not much correlation (*forget about causation*) between the two.

I do not monitor FII flows from a stock market standpoint.

That said, what happens to the Chinese economy is important from a commodity standpoint.

That's the most relevant part for the markets. China is a very good example of disconnect between the economy and the markets.

Since 2007, the Chinese economy has moved up over 7x, and the markets have not gained that much during this period.

China has the largest weight in the emerging market indices, and if their stock market goes up, the other EMs also start to look attractive.

How do you see the bull run in Indian equities shaping up?

The time frame is important. Though the markets can go down from here, I do not see a sustained crash in the largecap stocks.

There are areas of froth in the markets -- whether it is the IPO (*initial public offer*) frenzy, or the mid, small, and microcaps.

Of all the companies that have listed in India stock prices of over half have gone to zero.

In case a stock is battered, it is difficult for such stocks to make a full comeback/recovery in case they get beaten down.

In 2008-2009, the smallcap index fell 78 per cent. It took 8 years to come back to that level again.

However, since the index composition changes around 18 to 20 per cent every year; so in 8 years, while the index recovered, a lot of stocks that comprised the index back in 2008-2009, could not come back to the pre-crash levels.

What is your take on how primary markets are playing out and investors are chasing IPOs?

If a business is good and is priced sensibly, it will continue to attract investors.

However, in an IPO frenzy, investors take IPOs to be a lottery and want to flip out in a week.

Subscription levels in an IPO are not necessarily a good indicator of how good or bad a company is.

There have been cases when an IPO was under-subscribed, but the company went on to deliver good returns over a period of time.

What does the future have in store for portfolio management services and the markets given the spread of artificial intelligence?

The landscape is evolving and changing for the good.

However, investors need to interpret the data carefully as it remains subjective to what answers one seeks from AI.

We use AI and machine learning not because it is fashionable, but because what is required in the market landscape has changed.

Earlier, information was the cutting edge. Information is available freely to all.

The edge now is who can analyse the masses of data well.

Human judgement brings noise and bias. One needs to go into the depth of what is happening and then take an investment call.

What are the sectors one should avoid at the current levels? Is there any domestic issue that bothers you?

As a strategy, I remain underweight on capital goods and industrial machinery, and banks and financial services.

There are many domestic issues that bother me, starting with the likely loss of demographic dividend, which in turn drives consumption.