Beating A Volatile Market

Regular, systematic and disciplined investments can bring rich returns from ups and downs of the stock market.

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Diwali is considered an auspicious occasion for making investments, for which gold and silver have traditionally been popular choices. However, this Diwali, the real offers are available in equities after the market fall this year. This Diwali, one should make it a point to invest in a sound financial plan for the future instead of just investing to mark the occasion.

One of the best ways to do this is to have disciplined and regular investments in equities to generate good returns over the long term. The new generation of Unit-Linked Insurance Plans (ULIPs), with extremely low cost, return of mortality charges, discipline of Systematic Investment Plan (SIP) and free switches, can be a good option to take advantage of as they provide both protection and savings.

Disciplined approach

2018 has not been a good year for the equity markets after strong returns made from 2014 to 2017. This presents a good opportunity for long-term investors. Stock prices of good companies are now lower, which means funds have cheaper net asset values (NAVs). While it is difficult to predict the ups and downs in the short term, we certainly can say that good companies that are bought cheaper reflect good investment behaviour. The time is right to invest in a systematic and disciplined manner to take advantage of the "sale" going on in the equity markets.

Corporate banking and pharmaceutical sectors are bouncing back from multiple, negative events.

We strongly believe that a disciplined and structured approach of doing research and investing, identifying high-quality businesses with strong corporate governance and holding on for long periods generates superior returns for investors. My years in the stock market have taught me that "time in the market is more important than timing the market". Trying to time the market leads to negative surprises generally, and investing on a regular basis is the best investment strategy.

Banking, pharma...

In the coming year of Samvat 2075, there are many pockets providing investment opportunities. We are very positive on the corporate banking space doing well. After underperforming the markets in the past four years, the valuations in this space are attractive to say the least. Overleveraged corporate balance sheets had been the key reason behind the ballooning of stressed assets in the corporate banks' books.

We believe that the issues are now getting resolved and expect the cycle to turn. Formation of new non-performing loans (NPLs) has slowed down significantly, the Insolvency and Bankruptcy Code (IBC) is helping in resolving stressed accounts, which would lead to provisioning write-backs. Growth in profitability of corporate banks is expected to accelerate as credit growth picks up, new provisions come down and provisions made for the non-performing accounts are reversed. Management changes at corporate banks have also expedited this process and can lead to re-rating in many of them.

Another space which we look at with optimism for the year is pharmaceuticals. Being a beneficiary of and a hedge against rupee depreciation, with improving scenario in the US markets, both in terms of regulatory approvals and price recovery, along with reasonable valuations, is a mix we would like to invest in. The sector is recovering from multiple negative events which happened over the past two years, leading to significant value destruction over the period. We feel that there can be a significant upside here.

In conclusion, volatility is likely to be the flavour of the markets in the near term, with five State elections to be held between November and December, and the general elections due by May of next year. Also, the US Federal Reserve's policy moves will dictate flow of money in emerging market equities. We believe that this will be a good time to invest gradually and build a portfolio with a long-term horizon. Regular, systematic and disciplined investments made during volatile times tend to earn higher returns in the longer term.

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