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Barjeel Driven by Trust بارجيل عنوان الثقة

# MARKET DIGEST

KNOWLEDGE POWER. WEALTH ENHANCER

May 2019 Issue:II Vol: 96

**SENSEX:** 39,714.20 | **NIFTY:** 11,922.80 | **DOW JONES:** 24815.04 | **NASDAQ:** 7453.15 | **USD/INR:** 69.58 | **GOLD:** $1311.1 (Aug 2019 future Contract) | **OIL:** 53.50 (July 2019 future contract)


## Stock Picks

| Company Name | CPM (Rs) | Target(Rs) |
|---|---|---|
| PVR LTD | 1,772 | 2,100 |
| Avenue Supermarts Ltd | 1,320 | 1,404 |
| Escorts Ltd | 589 | 643 |

Source: Geojit Financial Services

## INR Fund Picks

Performance as on 29/05/19

| Fund Name | | Returns (CAGR) 3Yr | 5Yr |
|---|---|---|---|
| HDFC Top 100 Fund - G | Largecap | 16.73 | 14.54 |
| Reliance Growth | Midcap | 13.21 | 13.22 |
| HDFC Equity Fund - G | Multicap | 16.23 | 12.02 |
| Tata India Consumer | Thematic | 18.42 | - |
| ICICI Pru Equity & Debt-G | Balanced Hybrid | 13.49 | 13.40 |
| HDFC Small Cap Fund | Smallcap | 18.31 | 17.48 |
| IDFC Sterling Value -G | Value | 15.14 | 14.80 |
| IDFC Core Equity | Large & Midcap | 13.12 | 12.12 |
| ICICI Pru Equity & Debt -G | Balanced Dynamic | 15.96 | 12.77 |

## UAE Round Up

- The UAE has started handing out five and 10-year residency visas to select expats this year. Long-term UAE residency visas valid for 10 years are available for Dhs1,150 for eligible individuals, according to local media reports.
- Etisalat becomes first MENA network to launch 5G 5G is around 20 times faster than the commonly used 4G networks now.
- The UAE continues to boast the biggest share of total listed bank assets in the GCC at $682 billion or 31.3 per cent of the total GCC banking assets.

## Global:

# The S&P 500 lost 2.6% this week and 6.6% this month, registering its first monthly decline in 2019. Lingering U.S.-China trade tensions and a surprise 5% tariff rate on Mexico from President Trump contributed to broad-based efforts to de-risk and seek safety in U.S. Treasuries.

# The Dow Jones Industrial Average (-3.0%), the Nasdaq Composite (-2.4%), and the Russell 2000 (-3.2%) finished with monthly losses of 6.7%, 7.9%, and 7.9%

# Investors continued to de-risk from the stock market, and bolster demand for U.S. Treasuries, fearful that these trade tensions will engender slower economic growth and lower earnings prospects. The 8.8% weekly drop in WTI crude ($53.48/bbl, -$5.14) also reflected concerns that slower growth will weaken end demand.

# The 2-yr yield dropped 20 basis points to 1.94%, and the 10-yr yield dropped 18 basis points to 2.14%. For the month, the 2-yr yield fell 33 basis points, and the 10-yr yield fell 37 basis points. The U.S. Dollar Index advanced 0.2% to 97.76 this week.

# Strikingly, 3-month yield finished 21 basis points higher than the 10-yr yield, widening this difference to its largest since the financial crisis. This term spread, according to research from the Federal Reserve Bank of San Francisco, is the most reliable predictor of a recession among the different term spreads.

| Index | Started Week | Ended Week | Change | Change% | YTD % |
|---|---|---|---|---|---|
| DJIA | 25585.69 | 24815.04 | -770.65 | -3.0 | 6.4 |
| Nasdaq | 7637.01 | 7453.15 | -183.86 | -2.4 | 12.3 |
| S&P 500 | 2826.06 | 2752.06 | -74.00 | -2.6 | 9.8 |

## India:

# In the week ended Friday, 31 May 2019, the Sensex gained 279.48 points or 0.71% to settle at 39,714.20. The Nifty 50 index rose 78.70 points or 0.66% to settle at 11,922.80.

# The BSE Mid-Cap index rose 150.94 points or 1.01% to settle at 15,096.18. The BSE Small-Cap index rose 167.48 points or 1.14% to settle at 14,867.04.

# Domestic stocks ended the week with modest gains on buying demand in index pivotals. Small and mid-cap stocks outperformed the Sensex during the week.

# Stocks ended with small gains on Tuesday, 28 May 2019 after a volatile session of trade. The barometer index, the S&P BSE Sensex, rose 66.44 points or 0.17% to settle at 39,749.73. The Nifty 50 index rose 4 points or 0.03% to settle at 11,928.75.

# Key equity indices ended with modest losses on Friday, 31 May 20109 as investors booked profits after the Narendra Modi government announced the allocation of the Cabinet portfolios. Sentiment was also impacted by negative global cues. However, steep slide in crude global oil prices cushioned losses.

# Chase your Goals, not the Returns

Indian Mutual Fund industry has been witnessing higher growth in investor participation in the recent years. The rise of equity cult could be gauged from the fact that equity / debt AUM ratio now stands at 0.92, a new high, which was 0.35 in March'14. This impressive growth in equity assets is driven by the likes of common savers, as 88% of equity + balanced funds AUM is owned by individual investors as of March'19. This probably could be the result of a tectonic shift in the way Indian investors are allocating their savings into various alternatives. Thanks to the initiatives of regulators, AMCs and advisors, investors are increasingly gaining awareness about mutual funds. While this is a good trend to look upon, the concern is on the way investors select the schemes for investment, evaluate and hold onto them.

As investors, we would always want to invest in the scheme which is in the Top 10 / Top Ranked / Top Rated. In a sense this is a very realistic desire. There are over 400 equity and aggressive hybrid schemes. Which are those 10 schemes that would scale to the Top rank over a period of three, five or ten years is a demanding guess work. Equity investments are ideally recommended for long term and goal planning. Most often investors in general and newcomers in particular are attracted by the short term performance rank of the schemes, especially six months or one. This is what is even highlighted in most of the information sources too, with famous tags like Top 10 schemes. We frequently get queries on them as well.

There are multiple factors at play as to why a scheme or a category outperforms the universe (or under performs) in a particular period or a cycle. Some years there is a broad rally, sometimes it is sector specific, at times a particular theme outperforms. Take the most recent instance. Broad markets were range bound in 2016, when predominantly international funds and some energy portfolios were in Top 10 by one year returns.

By: Mr. Sriram B.K.R., Geojit Financial Services

Markets showed a blistering performance in CY2017 with blue chip and large cap indices climbing around 28% to 32% during the year, while the mid cap index went up 48% and small cap index was up 60%. Mutual fund schemes delivered on similar lines, as per the category they track. But 2018 has been a mixed year with a narrow rally, with the large cap heavy indices rising 6%, but midcap and small cap dropped by -13% and -23.5% respectively. Portfolio of schemes heavy with technology and IT stocks and most of the ETFs / Index funds mirroring large benchmarks, scorched into the Top 10. Mutual fund schemes tracking mid cap and small cap portfolios tumbled. Data shows that schemes that figured in the Top 10 rank in a calendar year by one year returns, had a big variance in ranks in the subsequent year. The average rank of schemes that were in the Top 10 in CY2016 and CY2017 were 247 and 282 respectively in the subsequent years. CY2016 Top-10 schemes' average return in the next year CY2017 was 18.53%, against 64.54% of CY2017 Top-10. CY2017 Top10's average return in CY2018 was -16.17%, against +13.5% of CY2018 Top-10.

Top 10 ranking list of short term performance keeps changing every year. Selecting schemes purely based on the short term performance and churning to stay invested only with the Top ranked schemes carries a higher risk and have proven to be a less rewarding exercise than thought otherwise. It need not augur for higher returns.

### Table 1

Let us understand this scenario with an example (Universe: all equity schemes).

An investor choose to invest in mutual funds based on the Top 10 schemes of calendar year 2006 in January 2007. Here the urge is to always remain invested in the Top-10 best performing schemes and typically they get carried away by the recent past – the trending ones. The investor keeps churning the lot every year with a new set of Top-10 funds of each completed year. Hence the investment made in January 2007 gets replaced with the Top-10 of CY2007 in January 2008 and so on. This is called "Chasing the Returns". The hard fact is that this exercise has yielded below average return. On an average (of the 10 schemes) Rs.100 invested in January 2007 would have grown to Rs.159 in December 2018, over 12 years, a CAGR of 3.9%, less than a savings account interest rate. For two schemes out of 10 that was invested in, the returns were negative. On the other hand Nifty-50 Index (TRI) would have grown to Rs.316 or 10%, if invested in January 2007 and held till December 2018, without any churn.

Probably the results could be different for a different period. Returns fell especially in those years when there was an overall correction in the market across the sectors, like in 2008, 2011, 2018. Time and again we have been suggesting investors not to select a schemes based on the short term performance alone or evaluate the investments in short term. Investing for long term works, with periodic review of performance over time.

"The Myth of Top 10" - Risk of selecting based ONLY on short term performance - Rank Analysis by 1 Year returns (All Equity Schemes)

Table showing the Rank movement of Top 10 Schemes of a Calendar Year and in the Next CY

| Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | | Rank in | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CY06 | Nx.CY | CY07 | Nx.CY | CY08 | Nx.CY | CY09 | Nx.CY | CY10 | Nx.CY | CY11 | Nx.CY | CY12 | Nx.CY | CY13 | Nx.CY | CY14 | Nx.CY | CY15 | Nx.CY | CY16 | Nx.CY | CY17 | Nx.CY | CY18 | Nx.CY |
| 1 | 29 | 1 | 57 | 1 | 210 | 1 | 89 | 1 | 7 | 1 | 50 | 1 | 208 | 1 | 246 | 1 | 2 | 1 | 298 | 1 | 320 | 1 | 326 | 1 | ? |
| 2 | 58 | 2 | 90 | 2 | 203 | 2 | 18 | 2 | 4 | 2 | 193 | 2 | 237 | 2 | 263 | 2 | 52 | 2 | 228 | 2 | 335 | 2 | 118 | 2 | ? |
| 3 | 13 | 3 | 179 | 3 | 206 | 3 | 37 | 3 | 207 | 3 | 234 | 3 | 249 | 3 | 249 | 3 | 81 | 3 | 29 | 3 | 299 | 3 | 279 | 3 | ? |
| 4 | 1 | 4 | 82 | 4 | 172 | 4 | 42 | 4 | 59 | 4 | 8 | 4 | 236 | 4 | 240 | 4 | 3 | 4 | 297 | 4 | 333 | 4 | 305 | 4 | ? |
| 5 | 7 | 5 | 178 | 5 | 208 | 5 | 188 | 5 | 175 | 5 | 253 | 5 | 200 | 5 | 252 | 5 | 100 | 5 | 24 | 5 | 75 | 5 | 329 | 5 | ? |
| 6 | 99 | 6 | 93 | 6 | 211 | 6 | 124 | 6 | 191 | 6 | 221 | 6 | 233 | 6 | 251 | 6 | 11 | 6 | 115 | 6 | 126 | 6 | 274 | 6 | ? |
| 7 | 10 | 7 | 68 | 7 | 173 | 7 | 51 | 7 | 19 | 7 | 240 | 7 | 230 | 7 | 255 | 7 | 17 | 7 | 284 | 7 | 325 | 7 | 310 | 7 | ? |
| 8 | 92 | 8 | 118 | 8 | 13 | 8 | 4 | 8 | 210 | 8 | 224 | 8 | 55 | 8 | 256 | 8 | 132 | 8 | 126 | 8 | 334 | 8 | 211 | 8 | ? |
| 9 | 6 | 9 | 133 | 9 | 207 | 9 | 192 | 9 | 232 | 9 | 226 | 9 | 128 | 9 | 115 | 9 | 68 | 9 | 287 | 9 | 195 | 9 | 337 | 9 | ? |
| 10 | 16 | 10 | 150 | 10 | 97 | 10 | 174 | 10 | 231 | 10 | 232 | 10 | 162 | 10 | 267 | 10 | 35 | 10 | 258 | 10 | 129 | 10 | 339 | 10 | ? |

**TABLE 2**

**Few factors to consider:**

**Importance of research and advisory:** Mutual Fund industry today has a wider choice for investments. Advisors play a very crucial role in understanding the investors' needs, risk profile and suggest suitable schemes to help reach their goals. Investors should open up about their objective and the monthly cash flows as much as possible so that advisors can assess them and come up with suitable portfolio. Advisors are also able to help with their research based inputs, which eases the decision making process for investors and helps them to focus on other aspects of the investing journey. Investors can continue with their advisors if they are satisfied with the experience.

**Long term track record and consistency:** Carefully observe the track record of the schemes and its consistency of performance over the longer term and across different market cycles and phases. If the scheme is relatively new, consider it for investment if it has something unique and different to offer. For new schemes, the fund manager's or the fund house's track record could be a better gauge.

**Clarity of goals, time horizon and risk appetite:** Invest not because a scheme is available. Invest for your goals. Estimate the required sum by adequately considering the inputs required to calculate and by what time it is needed. Choose equity-oriented schemes only for goals that are five to seven plus years away. Allocate between equity sub-categories based on your risk appetite. For eg: A Mid / Small cap / Sectoral / Thematic fund may outperform the broader portfolios or large cap schemes in certain years, but they are also prone to volatility in the short term.

**Quartile performance and comparisons:** The first and foremost expectation from the investor of an actively managed scheme is to outperform the benchmark. Next should be the category average. Comparing the performance of a small cap scheme with large cap scheme or a sectoral fund would be incorrect. Try and see if your scheme is above the benchmark, the category average and if it is in the top quartile, in simple words say the first 25% of the universe. If it so, then as an investor, your investment is doing well. If the scheme is constantly failing to match up with the above thresholds even over a three to five plus year horizon, then we believe you have reasons to review and change the scheme.

**Performance Ratios:** Ratios like Standard Deviation and Sharpe can help investors to know how much a scheme can deviate from its mean and the risk-adjusted performance of a scheme. How much risk is assumed by the fund manager to potentially generate returns.

**SIPs are a good choice:** Investing systematically helps in equities. Regular investing is a technique in itself as it adjusts the quantum of units to the price by participating across market ups and downs. It also helps to get rid of timing the market. Important point an SIP investor should remember is to continue the SIPs when market comes down.

**Top 20 Schemes by 12 Years CAGR: 1-Jan-2007 to 31-Dec-2018**

| Scheme-Rank | % CAGR | in 12 yrs ... No. of times a Scheme appeared in 'Top 10 by 1 Year Perf.' |
|---|---|---|
| Scheme-1 | 19.0 | 4 times |
| Scheme-2 | 18.1 | 2 |
| Scheme-3 | 17.7 | 3 |
| Scheme-4 | 17.3 | 1 |
| Scheme-5 | 16.3 | 1 |
| Scheme-6 | 15.9 | 1 |
| Scheme-7 | 15.7 | 0 |
| Scheme-8 | 15.2 | 1 |
| Scheme-9 | 14.8 | 2 |
| Scheme-10 | 14.7 | 0 |
| Scheme-11 | 14.7 | 1 |
| Scheme-12 | 14.7 | 0 |
| Scheme-13 | 14.4 | 1 |
| Scheme-14 | 14.4 | 0 |
| Scheme-15 | 14.3 | 0 |
| Scheme-16 | 14.2 | 1 |
| Scheme-17 | 14.0 | 1 |
| Scheme-18 | 13.8 | 0 |
| Scheme-19 | 13.5 | 2 |
| Scheme-20 | 13.4 | 0 |

**Long-Term Performance Vs Short term ranking myth:**

Long term performance of schemes has got nothing much to do with it's short-term ranking. Data shows that:

- Out of Top-20 schemes by 12 Year CAGR: Only 1 scheme figured, 4 out of 12 years in 'Top 10' by 1 year returns ; 1 scheme figured 3 / 12 years & 3 Schemes: 2 / 12 yrs.
- 8 Schemes figured only once in Top 10 by yearly returns in 12 years.
- The surprising part is, 7 Schemes, with an avg 12-yr CAGR of 14.43% never appeared even once in Top 10 by 1 yr return, in 12 Calendar years.
- Deciding the investments only based on the short term performance or ranking, gets investor into a high risk.
- As Top-10 rank by 1 year is very volatile, once investors see a steep drop in ranking the following year of investment, they tend to shun and churn the investments to latest '1 Year Top-10'.
- Give some time to the Fund. Invest and see if its consistently performing beyond the benchmark and the category as a whole ... would be a better idea
- Review based on the consistency and other fundamental parameters of fund performance, fund manager's track record, Fund house's investment process and credibility.

Note: Geojit Research. MF investments are subject to market risks. Read all scheme documents carefully.


# When to sell and when not to?

"Buy low and sell high" appears as a simple strategy to make money in the stock market. This strategy is simple in theory but hard to practice. Buying is relatively easy. There are many proven strategies for smart buying like contrarian investing, coffee can investing, value investing etc., which have made many investors wealthy. But, are there any time-tested strategies for selling? Technical analysts would tell traders that charts give sure shot sell signals. But for the lay investor are there any strategies for selling?

Stock market legends like Warren Buffet made their fortune through a strategy of 'buy and hold'. Buffet once remarked that his favorite holding period was 'for ever'. He went on to add that "if you are not comfortable holding a stock for 10 years, you should not hold it for 10 minutes." It is important to understand that fortunes are made in the stock market by holding good quality stocks for long periods, during which time, they become multi-baggers.

By: Dr. V.K. Vijayakumar, Geojit Financial Services

So, should an investor not sell at all?

Certainly not! There are occasions that warrant selling. Let's look at the important ones.

**1. When the market is hugely over-priced and is in bubble territory**
There is an apocryphal story that during the winter of 1928, Joe Kennedy, who made a fortune from the stock market, decided to stop to have his shoes shined before he started his day's work at the office. When the shoeshine boy finished his job, he offered Kennedy a stock tip: "Buy Hindenburg." Kennedy soon sold off all his stocks and escaped from the Great Crash of 1929. His conclusion: "You know its time to sell when shoeshine boys give you stock tips. This bull market is over."

There will be rare occasions when speculation becomes rampant, valuations become hard to justify and the market goes into bubble territory. Such occasions warrant selling. That said, practically it would be difficult to time the selling. Therefore, selling may be done in stages.

**2. When your financial goal is reached**
If an investment is made for realizing a financial goal, say, purchase of a house, education of children, creating a corpus for retirement etc., it makes sense to sell the investment and realize your goal. After all, wealth is not an end in itself; it is only a means to an end.

Here it is important to make a difference between realization of a financial goal and fulfillment of a desire. An investor might say that he/she made a particular investment to buy an expensive car/studded jewellery and that he/she is selling now for the fulfillment of that desire. This is perfectly fine from the investor's perspective. But it may not be a good investment strategy. Many investors have regretted premature selling for fulfillment of desires.

**3. When the fundamentals of the stock change**
Business environment changes very fast. In this VUCA world of Volatility, Uncertainty, Complexity and Ambiguity, the pace of change itself has changed. Technology is disrupting businesses like never before. Many bluechips of yester years have become mediocre companies and many have become extinct. The FAANGs – Facebook, Apple, Amazon, Netflix, Google – have disrupted many businesses. Therefore, when the fundamentals that warranted investment change for the worse that would be the time to sell.

**4. When new information warrants a rethink**
We make some investments based on some assumptions. For instance, when we make an investment in an upcoming small-cap whose promoters don't have a long track record to assess, we make an assumption that the promoters would be persons of integrity. This assumption can go wrong. In recent times we had some instances of auditor exits from some companies casting a shadow on the integrity of the management. Such instances warrant a rethink of the original investment idea. Such instances should be used as opportunities to "remove the weeds and grow the plants".

**When not to sell?**
When not to sell is equally important, perhaps more so.

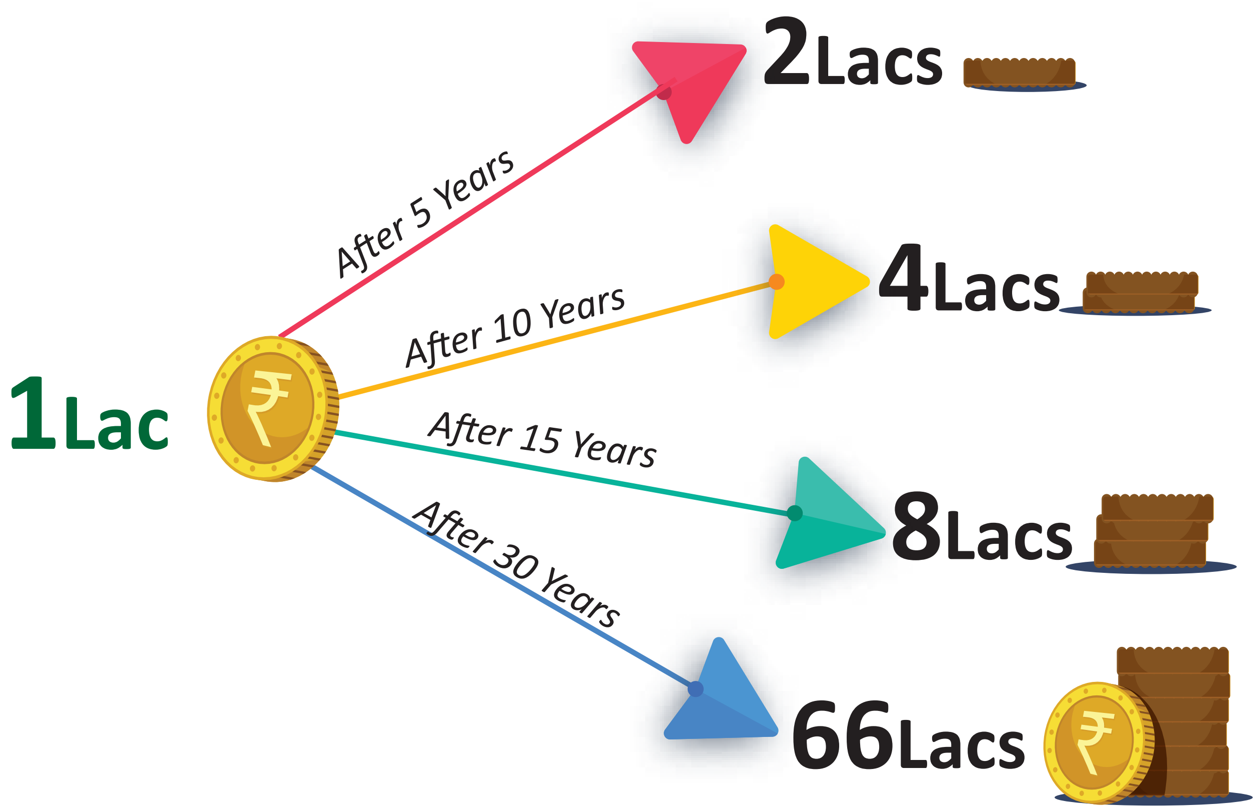
**1. Don't sell on panics**
It is well known that fear and greed are the two extreme emotions in the market. As Warren Buffet said, "be fearful when others are greedy and be greedy when others are fearful." The crowd sells when there is panic in the market. This is the opposite of good investment strategy. During panics the markets crash and sellers incur huge losses. Avoid this mistake. The ideal strategy during panics is not to sell, but to buy.

**2. Don't sell just because you got very good return**
Traders operate with a target price and stop loss. But in investment, target price need not be a good idea. Retail investors have a tendency to book profits too early. Selling a share just because it gave 50 percent return in a year or doubled in two years doesn't make sense. The share may turn out to be a multi-bagger. In the last 10 years stocks like Bajaj Finance, Eicher Motors, Symphony, Avanti Feeds, Ajanta Pharma, and Relaxo Footwear have multiplied many times (100, 200 and even 300 times) delivering incredible returns. Investment of Rs 9500 in 100 shares of Infosys in 1993 is now worth more than Rs 7 crores. Had the investor exited from these stocks early after reaching a target rate of return, he/she would have lost the golden opportunity to participate in the phenomenal wealth creation these stocks delivered.

**3. Don't sell during temporary downswings**
Even the best of stocks undergo temporary downtrends due to a variety of reasons. If the downtrend is due to structural reasons, it makes sense to sell. If the downswing is due to temporary issues/ cyclical factors, investors should not panic and sell. Wait till the issues get resolved. If you have great conviction in the long-term potential of the stock, the temporary downtrend may be the opportunity to buy.

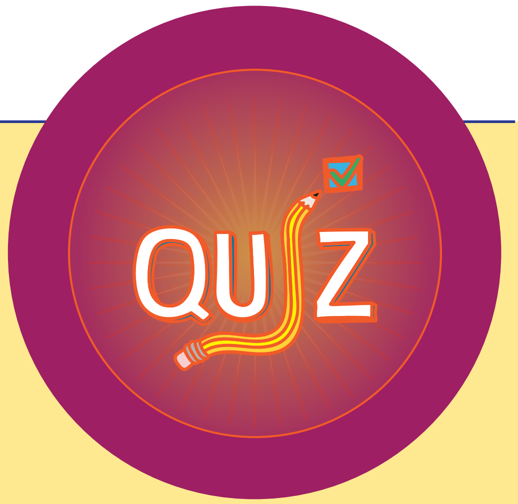
It is extremely difficult, almost impossible, to buy a stock at the bottom and sell it at the peak. Even masters of the game rarely achieve the feat. But to be successful in the stock market you don't have to be right all the time. Even in the best of portfolios, there will be poor performers, average performers, above average performers and a few outstanding performers. Wealth is created by the last category.

# The Power Of Compounding




*At the compounding rate of 15% per annum*
*All investments are subject to market risk*

**Q:Which portfolio has the most aggressive risk level?**
**a) 80% stocks, 20% bonds**
**b) 10% stocks, 90% bonds**
**c) 50% stocks, 50% bonds**




Answer to the last quiz:
Q: Unscramble the word? is LEVERAGE


Thank you for the quick responses.The early right answer of the quiz was given by:

**Ms. Anu Agarwal**
**Mr. Chellamani Raman**

Share the answer at ***reply@barjeel.ae***

*The answer to the question along with the **Winners Name** will be published in the next issue of Market Digest. All the best!*

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