For private circulation only

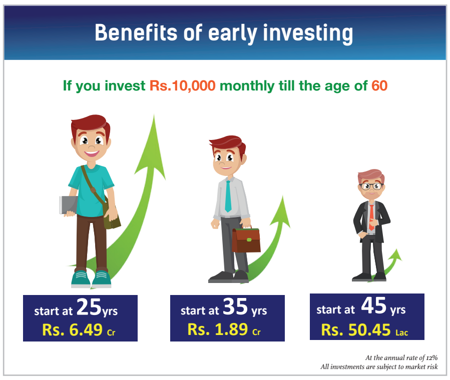
Barjeel Driven by Trust بارجيل عنوان الثقة

# MARKET DIGEST

KNOWLEDGE POWER. WEALTH ENHANCER

April 2019 Issue:I Vol: 93

**SENSEX:** 38,862.23 | **NIFTY:** 11,665.95 | **DOW JONES:** 26,424.99 | **NASDAQ:** 7,938.69 | **USD/INR:** 69.23 | **GOLD:** $1295.60 (June 2019 future Contract) | **OIL:** 63.08 (May 2019 future contract)




## Stock Picks

| Company Name | CPM (Rs) | Target(Rs) |
|---|---|---|
| BAJAJ AUTO LIMITED | 2970 | 3294 |
| SIEMENS | 1055 | 1120 |
| BANK OF BARODA | 121 | 137 |

Source: Geojit Financial Services

## INR Fund Picks

Performance as on 03/04/19

| Company Name | | Returns (CAGR) 3Yr | 5Yr |
|---|---|---|---|
| HDFC Top 100 - Growth | Largecap | 17.37 | 14.38 |
| HDFC Mid-Cap Oppor | Midcap | 15.33 | 19.50 |
| Aditya Birla Sun Life Equity | Multicap | 16.32 | 17.72 |
| Tata India Consumer | Thematic | 21.36 | - |
| ICICI Prudential Equity & Debt | Balanced Hybrid | 14.52 | 15.20 |

## UAE Round Up

- Investments to UAE expected to rise by 20% in 2019. The UAE Government's new foreign direct investment, FDI, law passed in 2018 could accelerate FDI flows by up to 20 per cent this year, from the eight per cent average growth rate, as per the recent estimates of the Ministry of Economy.
- UAE President awards Indian PM Modi with the Zayed Medal. The medal is the UAE's highest civil honour awarded to kings, presidents and heads of states. Dubai's Mashreq to close 12 branches as it shifts online.
- UAE's ADNOC signs new long-term agreement for base oil sales into China. ADNOC Refining produces up to 500,000 metric tonnes per year of the Group III base oil

## Global:

# The S&P 500 gained 2.1% to start the second quarter this week, extending its winning streak to seven straight sessions and setting a new closing high for the year. Investor sentiment was boosted by positive manufacturing data, progressing U.S.-China trade talks, and a Goldilocks Employment Situation Report for March.

# The Dow Jones Industrial Average gained 1.9%, the Nasdaq Composite gained 2.7%, and the Russell 2000 gained 2.8%.

# The S&P 500 materials (+4.3%), financials (+3.3%), and consumer discretionary (+3.2%) sectors led the broader market higher. Conversely, the defensive-oriented consumer staples (-1.0%) and utilities (-0.2%) sectors were the lone groups that finished lower.

# Stocks rallied to begin the week, catalyzed by better-than-expected manufacturing activity for March out of the U.S. and China. The data helped reinforce the idea that global economic activity could be close to, or near, a bottom, which could potentially lead to a pickup in earnings growth later in the year.

# Friday's release of the Employment Situation Report for March showed job growth rebound without stirring concerns about inflation, which provided more fuel for the rally. Overall, the report exposed February's weak payrolls data as an aberration and helped drive the notion that the economic expansion in the U.S. still has room to run.

# U.S. Treasuries pulled back this week, driving yields higher across the curve. The 2-yr yield increased seven basis points to 2.34%, and the 10-yr yield increased nine basis points to 2.50%. The U.S. Dollar Index increased 0.1% to 97.40. WTI crude rose 4.9% to $63.10/bbl, hitting a five-month high.

| Index | Started Week | Ended Week | Change | Change% | YTD % |
|---|---|---|---|---|---|
| DJIA | 25928.68 | 26424.99 | 496.31 | 1.9 | 13.3 |
| Nasdaq | 7729.32 | 7938.69 | 209.37 | 2.7 | 19.6 |
| S&P 500 | 2834.40 | 2892.74 | 58.34 | 2.1 | 15.4 |

## India:

# Market gains for seventh straight week

# Domestic stocks logged modest gains in the week gone by to end higher for a seventh consecutive week. Markets across the globe rose with investors hopeful of some headway in the US-China trade talks. In the week ended Friday, 5 April 2019, the Sensex rose 189.32 points or 0.49% to settle at 38,86.

# The BSE Mid-Cap index rose 29.74 points or 0.19% to settle at 15,509.36. The BSE Small-Cap index rose 18.51 points or 0.12% to settle at 15,045.87.

# RBI reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6% from 6.25% with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.25%.

# US President Donald Trump said on Thursday a trade deal with China might be announced within four weeks, although he warned that it would be difficult to allow trade to continue without an agreement. Chinese President Xi Jinping reportedly said progress was being made and called for an early conclus.

# The RBI also lowered its GDP growth outlook for 2019-2020. RBI expects GDP growth at 7.2% for 2019-20, lower than its February projection of 7.4%.


# Pre-election rally likely to sustain

**The last one month has been very difficult for the market in terms of sentimental setbacks like geo-political tension, weak data in the domestic GDP and cut in global growth outlook. But on a positive note the market ignored all these issues with a very broad-based rally against the muted trend of the last 15 months. This rally – global and domestic – is now interestingly poised. This could create some volatility in the near-term, but we continue to strongly believe that the outlook has improved for the long-term. We advise our clients to add their exposure in equity with higher mix of high quality mid and small caps.**

By: Mr. Vinod Nair, Head of Research, Geojit Financial Services

**The geo-political effect**

The Pulwana attack had a sentimental effect on the market. Political strategists had a view that this will lead to uncertainty in the region. Geo-political risk was expected to escalate and the market had a watchful round over the developments. Market had a dip on the day of the attack but since then it has traded with a mixed bias, assessing announcements to evaluate further risk. This market trend was short-term in nature given the global diplomatic stand and strength of the country. Also, it is important to note that such events had not impacted the market on a real basis, even during the Kargil war.

**Market during Kargil War**

| KARGIL WAR | Date | Sensex | MSCI - EM (INR Terms) |
|---|---|---|---|
| Started on | 30.04.1999 | 3,326 | 16,078 |
| Ended on | 26.07.1999 | 4,625 | 17,266 |
| Market return | 87 Days | 39% | 7% |

Source: Bloomberg,

**Institutional investors' sentiment has improved in the last two months**

Foreign inflows have increased in the domestic market, stimulating liquidity in the system. India is outperforming emerging markets. In February and March, FIIs have continued their aggressive buying with inflows of Rs17,000cr in February and Rs26,500cr as on 20th March. FIIs are positive on India due to better bargain led by prolong pause in FED rate stance and a positive outlook in the future. Rupee gained strength and moved below 70/dollar for the first time in more than two months owing to increase in foreign inflows and stability in oil prices.

**This is not the time to lose hope**

Investors have been very risk-averse in the last 15 months. Today due to continuous price erosion many retail investors are considering reduction in exposure to equity and shifting to fixed deposits or debt schemes. This is actually the opposite of what they should be doing now. We believe that continuity in SIP and higher mix of quality mid and small caps will provide better gain in the long-term. It is important to note that interest rate in India is likely to reduce by 50-75bps in the coming two to four quarters which is positive for equity rather than debt or fixed depos it. It is the right time to churn your portfolio, over the next three to six months, by increasing the mix of mid and small caps. At the same time, we may have to reduce few blue-chips from our portfolio which are very expensive and may not generate enough return in the medium-term. We have a positive view on sectors like banking, infra, cement, chemical, and oil and gas which can give above normal return in the medium-term.

From the valuation perspective, in a broad index like Nifty 500, about 60-65% of the stocks are currently below or in-line with the seven-year average valuation on trailing P/E basis.

This is very attractive. We can conclude that a majority of stocks have corrected well while a few sets of blue-chips and sectors like FMCG, consumer discretionary, chemicals and IT are valued on the higher side.

**Market bounced in the last one month… will sustain in the long-term.**

We had a strong rally in mid and small caps in the last one month. Nifty-Midcap100 and Nifty-Smallcap100 indices are up by 11% and 15% from their recent lows between 18th February and 18th March. Market feels that one of the important reasons for this rally is de-escalation in geo-political risk and opinion polls showing positive vibes for the ruling party in the upcoming election. What we feel is that this could be the secondary factor whereas the main reasons are cheap prices and valuation given the tremendous fall between January 2018 and February 2019, and improved outlook in the future. Nifty Midcap Index was down by 24% and Small caps Index by 37% during the same time.

**Nifty Midcap Index**

This fall was triggered by premium valuation compared to large caps by 20% above the long-term average, while a slowdown in economy due to bunch of disruptive reforms (Demo, GST, IBC) impacted the economy in FY19 and a similar slowdown in world economy led to downgrade in earnings. Strict norms from SEBI and reduction in liquidity in the banking system due to nonperforming assets (NPAs) and Non-Banking Financial Company (NBFC) issues impacted the stocks.

**Nifty Midcap Index**

Earnings growth for Midcaps was positive in between FY17 and FY18 which slowed heavily from Q1FY19 onwards. At the same time the average valuation on a one year forward P/E basis was as high as 25x which has come down to 15x. Market expects earnings growth to revive in FY20 with betterment in economic momentum from Q2 to Q3. Domestic worries like slowdown in business has stabilized and financial liquidity has improved. NPA issue is at the second phase of development led by IBC while monthly GST collection has improved indicating some progress in the ground reality. Post general election and stability in domestic market, capex cycle can return. This is likely to be supported by reduction in interest rate. All these factors are supporting mid and small caps.

Currently, pledged stocks issue was highlighted due to two reasons: continued fall in mid and small cap prices due to which pledging has automatically increased and the tight financial situation of NBFCs and banks. Specifically, stock issue increases when pledging goes beyond 50 percent. We will have to be careful and take a call as per the leverage situation of the company in future. If there is a possibility of moderation in the leverage in future with positive business outlook, there could be an opportunity.

**Top pledged stocks of Nifty500 Index.**

| Top 20 pledged shares Nifty 500 | | |
|---|---|---|
| **Sl No** | **Company Name** | **Pledged Share %** |
| 1 | Reliance Naval & Engg. Ltd. | 100.0% |
| 2 | C G Power & Indl. Solutions Ltd. | 100.0% |
| 3 | I L & F S Transportation Networks Ltd. | 98.2% |
| 4 | Sterlite Technologies Ltd. | 96.7% |
| 5 | Gayatri Projects Ltd. | 93.6% |
| 6 | Hindustan Construction Co. Ltd. | 91.8% |
| 7 | Jindal Stainless (Hisar) Ltd. | 87.7% |
| 8 | Jaiprakash Power Ventures Ltd. | 87.0% |
| 9 | Jindal Stainless Ltd. | 85.8% |
| 10 | Reliance Infrastructure Ltd. | 83.6% |
| 11 | Reliance Power Ltd. | 82.8% |
| 12 | G M R Infrastructure Ltd. | 82.7% |
| 13 | Dish T V India Ltd. | 82.1% |
| 14 | Max Financial Services Ltd. | 81.2% |
| 15 | Coffee Day Enterprises Ltd. | 79.4% |
| 16 | Suzlon Energy Ltd. | 76.7% |
| 17 | Max India Ltd. | 76.1% |
| 18 | Apollo Hospitals Enterprise Ltd. | 74.8% |
| 19 | Reliance Capital Ltd. | 74.5% |
| 20 | Sintex Plastics Technology Ltd. | 71.3% |

**Euphoria in domestic and global market is attracting investors**

The undercurrent in mid and small caps is positive due to cheap valuation. The risk is minor with marginal downgrade likely in Q4FY19 earnings leading to some profit booking in the near-term. However, on a long-term perspective, we believe that such volatility will generate an entry point. Opportunities in domestic economy are picking up and analysts expect earnings to gain traction during FY20 due to revival in sectors like cement, infra, consumption and banks. Market is focusing on domestic businesses in expectation of improvement in future outlook while growth is normalizing in the rest of the world. Probability of a stable government formation at the center and inflation being continuously below the RBI's target increases the chance of rate cut in the coming two to three quarters. After the slowdown in Q3 GDP, investors are focusing on rate sensitive stocks. The 10-year yield has declined in anticipation of a dovish monetary policy.

March will be very crucial for the market both globally and domestically. Clarity is likely to emerge in US-China trade deal by end of March. Similarly, Trump is contemplating a similar tactic with Europe, Japan and India. Till date the development of this meeting is positive and not likely to be as hazardous as expected earlier. The other points are Britain's role in EU (BREXIT) by 29th March, and central banks meeting of FED, ECB and Bank of Japan which will define the support to the slowing world economy. Economic data of US, China and EU will be very eagerly watched by the market to decide the outlook for CY2019. IMF had cut its world GDP forecast for the year in January. While global liquidity condition is expected to ease in the expectation of more dovish stance by FED diverting funds to high yield emerging markets.

Only few domestic macros are due in March but the above-mentioned global events will weigh on the domestic market. It will be data heavy in April – May led by RBI policy meet, Q4FY19 results and the general election. This ongoing rally may take a break in between given the sharp nature of the bounce, but we believe that it will build a positive momentum in the long-term and we continue to have a very positive view on mid and small caps.


**Wrong investment decisions of retail investors have been very well chronicled. As a student of behavioral finance, I have keenly observed retail investor behavior for long, so much so that retail investor mistakes don't surprise me any longer. Even then, some investors continue to surprise with unbelievable investment blunders. I came across 3 instances recently, which will be a learning experience for all.**

By: Dr. VK VijayKumar, Chief Investment Strategist,
Geojit Financial Services

**Catching the falling knife**

An extreme case is an investor with a single stock portfolio. He has been betting on the wrong horse and increasing his stake. The stock that he has been accumulating – Unitech – has been consistently falling due to structural problems. But ignoring the deteriorating fundamentals, he kept on accumulating the stock – a classic case of catching the falling knife. To accumulate an increasing volume of the stock he sold the other stocks in his portfolio. Now he holds 10 lakh shares of the company at an average cost of Rs 4 a share. The present market rate is Rs 1.40. Even now he is confident that the share would rise to Rs 8 and he will make a profit of Rs 40 lakh. I asked him, " why didn't you buy HDFC Bank, HDFC, TCS, Infosys, ICICI, ITC, HUL, RIL, L&T….? His answer was simple: "they are all very expensive, and therefore, risky."

**Biting more than what one can chew**

Another case is an investor who has too large a portfolio. He didn't know how many stocks he had in his portfolio. I counted; it was 135. A retail investor can have a portfolio of, ideally, 25 to 30 stocks, certainly not more than 40. The larger the number of stocks in the portfolio, the more difficult it would be to monitor the stocks.135 stocks in the portfolio would make it impossible to manage. Many stocks in this 135 stock-portfolio were bought on tips. His investment in low-quality stocks was huge and in bluechips was very low. He had lost much more money in small-caps than he had made in quality large-caps.

**Selecting the wrong fund**

My discerning readers might now be thinking that these guys should be investing through the mutual fund route rather than through equity directly. But wait a minute: mutual fund investment also can go wrong if the investment is made in the wrong product. Which takes me to the third case of an investor who had invested Rs 25000 in an infrastructure fund in 2008 and recently redeemed it with zero appreciation. Investing the entire investible amount in a thematic fund was her mistake.

The solution to these follies is simple. Successful investment in stocks requires expertise and time. Those who have both can do that. Large-caps are always safe. Low-grade stocks should be avoided like the plague. Those who don't have time and expertise should invest through mutual funds. Thematic funds should be avoided unless there is a compelling case for that. Investment in small-caps should be done, ideally, through mutual fund SIPs. Investors should have a clear idea of their financial goals and risk appetite. Asset allocation should be done based on that.

**The following facts/ideas will help investors get the art of investing in proper perspective, help avoid some usual mistakes and facilitate rational decision-making.**

• Stocks give the best returns and beat all other asset classes in the long run. This is the lesson from the history of investment of the last 150 years.

• Quality stocks give good returns in the form of dividend; they give excellent capital appreciation; they are liquid, i.e. they can be converted into cash quickly; they are safe and they give good tax benefits.

• Capital appreciation can be incredible in the long run. Investment of Rs 9500 in 100 shares of Infosys (IPO) in 1993 is now worth around Rs 7.2 crores. The opposite also is true. If the investment were made in poor quality companies, the investor would have lost a major part of his investment, sometimes, his entire investment.

• In India, stocks have given excellent returns in the last 40 years. The Mumbai stock index Sensex, which was 100 in 1979, is now (March 2019) around 38000. This means, the original investment made in 1979 has multiplied 380 times during the last 40 years. This works out to an average annual return of around 16 %.

• The most important factor determining stock market returns in the long run is corporate earnings growth, which in turn, depends on the economic growth rate. There is a global consensus now that India has the best potential to achieve the highest growth rate in the world in the coming years. India has overtaken China to become the fastest growing large economy in the world.

• To understand the benefits from stock investing we should know the power of compounding. Investment of Rs 1000 every month for 30 years will grow to Rs 10 lakhs at 6% return, Rs 22 lakhs at 10 % return and Rs 70 lakhs at 15 % return. This is due to the ‘power of compounding’, what Einstein called ‘the 8th wonder of the world’.

• Investment in stocks is highly tax-efficient. Dividends are exempt from tax upto Rs 10 lakhs. If the stock is held for more than a year, the capital gains are exempt from tax upto Rs 1 lakh a year. These tax benefits make stocks an excellent asset class.

• To get superior returns from the stock market: start investing early, invest regularly, invest for the long term and invest intelligently.

• An essential principle of investing is: Don’t put all your eggs in one basket. Therefore, an investor should spread her investment among asset classes like bank deposits, PO Savings deposits, gold, real estate and stocks. A part of the investible funds should be invested in stocks for superior returns.

• Asset allocation should be based on the investors’ financial goals and risk appetite, i.e. how much risk the investor can take. This depends on the investor’s age, income levels, expenditure commitments etc. Age is the most important factor. The ideal investment strategy should be to invest more in stocks/ mutual funds (risky in the short run; but not in the long run) in the early phase of one’s career and less in stocks/ mutual funds and more in fixed income like bank deposits while approaching retirement.

• To get superior returns from investment, invest in good quality stocks. Assess the quality of the stock from the track record of the company.

• The quality of management and the nature of the industry are important factors.

• Investing in stocks is like starting a business. When you buy shares of a company, you are buying ownership in the company. You own a business without the headaches of running the business. A great bargain!

• You need only average skills to invest in the stock market. A popular adage in the stock market is: “To be successful in the stock market, you need only an average person’s intelligence; but ten persons’ patience.” This is true. To make money, buy stocks of good quality companies and wait with patience.

• Investors who don’t have the expertise or time to invest in stocks directly may invest through mutual funds, preferably through SIPs.

• Even if your philosophy is to buy and hold for the long term, continue to monitor your stocks and consider selling them if they're not appreciating or if the market conditions have turned bad.

- Keeping informed every day about your portfolio, the financial markets, and the general economy will help you manage your investment better.

- Keep a tight control on your debt and finances. In turn, this practice will ease the pressure to invest aggressively with a short-term focus and help you focus more on the longer term instead.

- Don’t buy a share touching an all time low. Don’t sell a share continuously scaling all time highs. ‘Exit from the weaklings’ and ‘Ride the winners.’

- Panic and greed are the two extreme emotions in the stock market. Blinded by greed some traders make reckless bets. Some investors panic and flee from the market when the market corrects. Don’t succumb to these extreme emotions.

- Most great investors are contrarians. They buy when the crowd sell and they sell when the crowd buy aggressively and irrationally. Warren Buffet famously said, “Panic when others are greedy; be greedy when others panic.”

- Don’t succumb to the temptation of buying cheap stocks. Good things are not cheap; cheap things are not good. This rule is applicable to stocks also. Good stocks are always expensive.

- If you feel that the market is likely to move up, but you are not sure which stock to buy, buy the index. When the index moves up, you gain.

- Don’t average a crashing stock. It would be like trying to catch a falling knife.

- Disciplined, systematic investment in good companies run by proven management is sure to reap rich rewards. Good stock selection, systematic investment and patience will work wonders.

- Big fortune is made not by 'working for money' but by making 'money work for you.' When you make a good investment you are making money work for you. Remember that wealth is not earned; it is created.

- Don't try to time your investment. Any time is good time, if you have patience and you are investing in good stocks. More important than timing the market is the time you spend in the market, that is, patiently waiting for good returns.

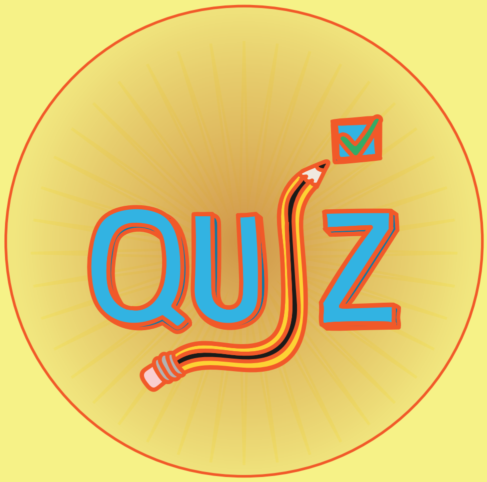
**Happy Investing!!**

**Q: What does "Short Selling" mean?**

**a. Selling securities that the investor has borrowed and prepared to buy back later at a lower price**

**b. An trading strategy used to profit from a price decline**

**c. Both A and B**




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

Answer to the last quiz:
Q: Which of the following is truly international asset class is: c) Equity

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