STOCK EYE: PARAG PARIKH

Personal finance

Let fear prevail

AT PRESENT, investors are in two minds. On the one hand, they are anchored to the past high index of 6,700 and feel it will be difficult to breach that point. On the other, we have constant news of foreign institutional investors (FIIs) pouring money into the markets. In the first two months of this calendar year, they have made net investments of around Rs 8,800 crore. There is too much money chasing the stocks, just like it did during the IT rally in 2000. Still, it is different this time around.

There is an overall rally in stocks. The corporate performance for all sectors is improving. We are benefitting from the liberalisation. It would be wrong to say this is a bubble, and that it will soon burst. The stock prices don't go in tandem with the good news because people can overreact and there may be pricing anomalies. That is why we see so much of volatility, which eventually corrects the anomalies. Markets go up on responsiveness — and go down the same way too. This is how they pull between bouts of greed and fear.

Currently, there is fear in the markets. Investors are afraid to invest, thinking that the markets are high. The markets keep going up. In fact, many investors sell at highs, thinking that they will buy again when the markets fall. But markets don't give any such opportunity. There is huge volatility and on certain days, the Sensex moves down by over 100 points. However, investors fail to take advantage of this fall or re-enter the markets. Loss aversion is at play, leading to decision paralysis among investors.

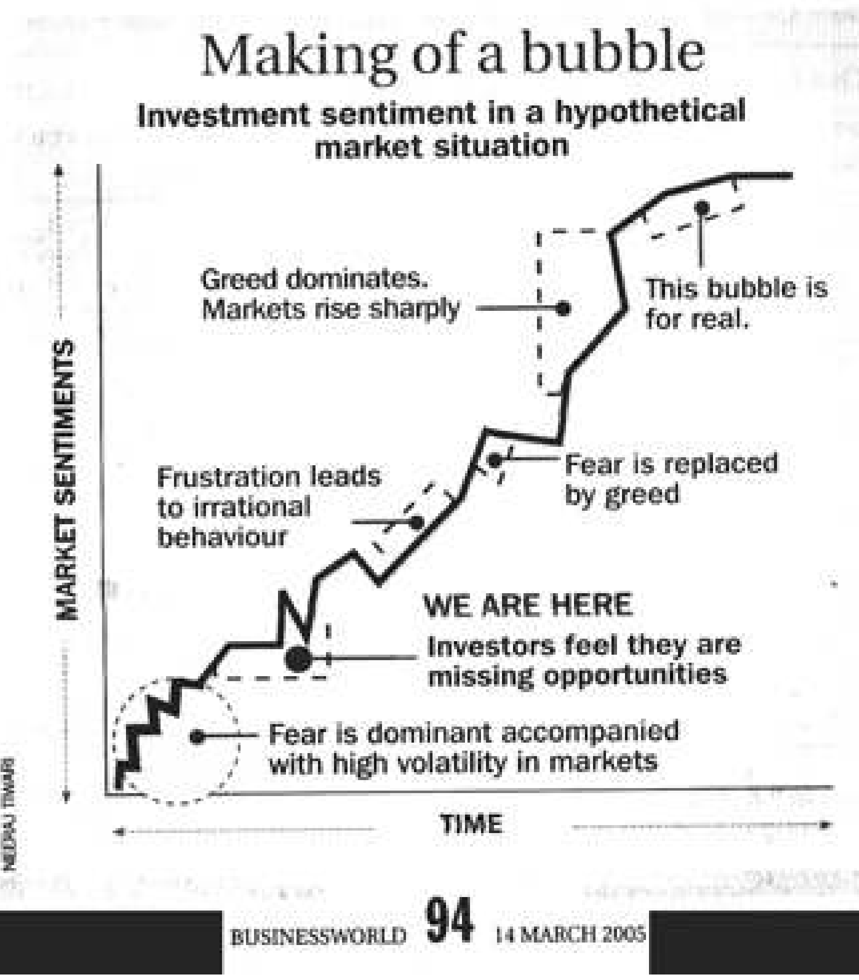
I, for one, did not attach any importance to the Budget this year, especially because finance minister P. Chidambaram had already mentioned in his last Budget just nine months back that he was laying the roadmap of where he wanted to go. He has mentioned that in the ensuing Budget, he would give more clarity to his vision. The way the markets have behaved after the Budget, and the friendly market policies of the present government are testimony to the vibrant capital markets.

The present state of the markets is healthy. The problem arises when we see greed in the markets. When there is greed, there is a strong likelihood of a scramble for stocks. Each one is trying to buy faster than his neighbour, and become a portfolio manager in his own circle of influence. You only hear about how different people have made huge money in the stock markets.

Then, there are companies that change names to be in tune with the favourite sectors of the markets. Remember the dotcom mania? There would be a beeline of corporates to enter the capital markets and raise fresh money. There is no such greed prevalent now, and hence the chances of markets sliding down like a pack of cards are very low. As long as fear dominates the markets, one should not worry.

The only notable reason for the markets to go down drastically would be the state of our fiscal deficit. But we all have been living with it for so long that we have stopped attaching too much significance to it. The markets work on sentiments and, at present, the sentiment is bullish, with the economy growing at seven per cent.

The corporate results are good and there is a massive capital inflow in to the country. The most important factor for the bullish conditions to prevail is that stocks, as an asset class, consitute the most tax-friendly option. Over a period, they would find a place in every investing Indian's portfolio. ■



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