No shortcuts

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KEEP YOUR EMOTIONS UNDER CONTROL AND TRUST THE UNIVERSAL PRINCIPLES OF NATURE – WHATEVER GOES UP MUST COME DOWN

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With the stockmarkets going up for the last three years, there is considerable interest in equity investing. Investing, as the name suggests, is a must for any individual, as we all need to invest our savings wisely, so that we can maintain our standard of living, when our ability to earn diminishes. There are two ways of earning returns from equities. One is by investing in companies by looking at the fundamentals represented by earnings and dividends. The second way is 'speculation' – represented by the market valuation of these fundamentals. The first is reliable and sustainable over the long run, while the second one is risky and dangerous.

From 2003, when the Sensex was around 3000, we had good investment opportunities. The Sensex dividend yield was around 2.40 per cent and the Sensex P/E ratios were around 12. The Sensex price to book was around 2. However, there was fear in the minds of people and no one was ready to invest. When the markets started going up, investors holding stocks started selling. Even those who had bought at 3000 levels started booking profits when they saw the Sensex inching upwards. This fear increased with every rise in the Sensex till it reached around 7000.

Thereafter, investor frustration started building up and the herd mentality became so strong that, just within a span of 10 months, we have seen the Sensex moving from 7000 to over almost 11000. Another way of explaining this phenomenon is excess liquidity in the markets, which is nothing but so-called sophisticated institutional investors pumping money in the markets. They are guided by their rules and peer pressure, which make them a part of a herd and they do what others are doing. Today, others are buying; so, everybody is buying.

Similarly, they will all come to sell together. Can you imagine what will happen to the markets when that happens? They created havoc in the Asian markets in 1998, when, all of a sudden, such portfolio money began to flee.

At present, the Sensex is around 10900 and fear has been replaced by greed. Even penny stocks are going up. The latest scam of multiple applications and d-mat multiple accounts, where banks and depositaries are involved, points towards what greed can do. There is a big appetite for stocks and, hence, we find smart investment bankers pushing in IPOs. They are all getting an overwhelming response from the public and why not? Investors are able to make a huge profit on listing. The red light has just been flashed. Jagran Prakashan Ltd issue is quoting below its offer price on the first day of the listing.

I am in no way advocating an end of the equity era and the resultant doom. I am bullish on the Indian economy and its long-term growth. But the equities have run up fast and there will be a correction. The excesses will have to be corrected. At present, we are seeing abnormal markets. You cannot buy stocks and make money everyday. Nor can you have investors buying stocks at any price, which is happening today. We need to learn from history and our memory of 1999-2001 is still not so distant that we cannot remember it. Don't you hear people say: "This time, the bull market is different, backed by strong fundamentals. It cannot go down." Well, you hear this during all bull markets. "This time, it is different." It's the same greed always, but of different people.

At present, we are living in an irrational world and no one knows where we are heading. Intelligence and brilliance will carry the day, but wisdom and common sense will endure. Keep your emotions under control and trust the universal principles of nature: Whatever goes up must come down and you cannot sow today and expect to reap tomorrow. There are no shortcuts in life.