

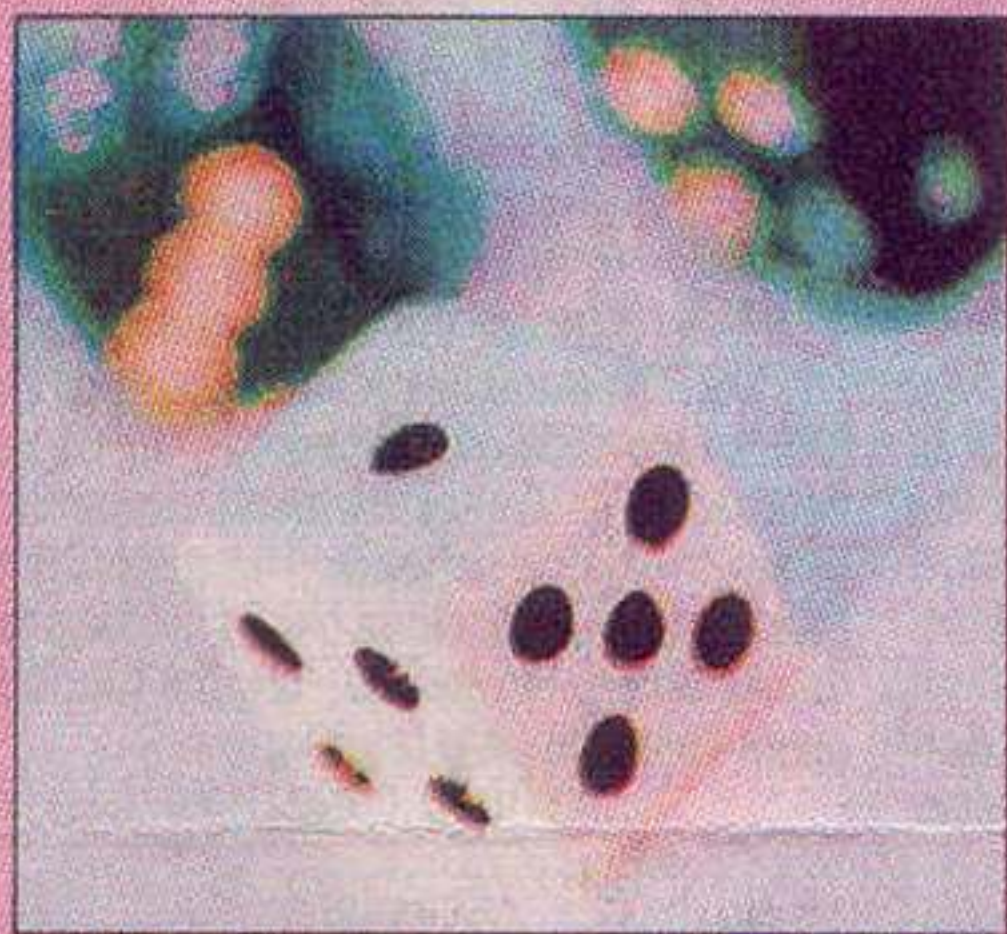
Penny wise, Pound Foolish

Everybody's pressing the sell button, but is anyone buying?

Time to get back to some old pearls of wisdom, says **Parag Parikh**

THE pendulum of greed and fear has once again triggered huge volatility in the stock market. When the index touched 8000, there was jubilation all around and every investor - be it an individual or an institution - was hunting for good investment stories. They all wanted to buy a stock that would go up and all were confident that the market would go up. Now all of a sudden everyone wants to desist from making further commitments or wants to exit.

The market has just gone down by a couple of hundred points but is still above the 8000 level. Why the sudden change of sentiment? Investors are losing in penny and junk stocks. Wise men have always cautioned investors to avoid such investments, but the lure of the quick money was so powerful that they did not heed any wise advice.



We need to understand the behavioural concept of herd mentality and how it affects our actions. To add to the confusion, we have this regulatory stipulation of circuits. It is these circuits, which distort our thinking by make us sway between bouts of fear and greed. This is how people get trapped. When there is a story of a penny stock doing the rounds investors check on the stock price and buy. When the price reaches a certain limit, it attracts the upper circuit limit. There are only buyers and no sellers. This creates a scarcity syndrome and investors get attracted to the stock. Next day they try to buy the stock and it again hits the upper circuit. Thus, the price starts going beyond the reach of those investors who want to own the stock. The scarcer the stock becomes, the greater the number of investors who want it. In this mindless chase, the spiralling price of the desired stock is completely overlooked. This is how their greed makes them pay a fancy price for a worthless stock and their fear of being left out make them buy what others are buying.

This is precisely what happened till the last week. A little reaction and the sentiment of the market changed overnight. The reason: lower price band circuits. Now, everyone wants to sell because others are selling. There are only sellers and no buyers. When one is confronted with such a situation one tends to join the herd and also wants to sell at any price and this leads to the stock price falling everyday due to a queue of sellers. At present there is fear all around leading to sell circuits in hundreds of penny and junk stocks. Is the India story over? Not at all.

But the stock craze of 'buy today and sell tomorrow' and make a profit is definitely over. This is a good warning to investors. Investment is a game of patience. It is all about buying the right sustainable businesses run by credible management at the right price.

Ups and downs are a part of investing. When the sentiment improves so will your stocks. During such times don't even look at the stock prices or else your emotion of fear will make you do things for which you will repent later.

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Fear Not

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NOW we come to the other crucial question. What should you do if you are holding penny stocks, which you had bought because of tips you got from brokers and friends? Well, tough luck. You were not investing. You were looking at buying a stock that was going up. You were driven by your greed to make a fast buck. It was a dangerous game and you were warned.

You did not heed the advice and you are trapped. If you can get out you will be lucky. If not, bad luck. You should have known that there are no short cuts to making money. What does the future hold? You are very lucky if you are sitting on cash. The market could go down even further, but such times would offer you good investment opportunities. Wait for them. If you are invested in good stocks which are also going down, then don't worry. You are there for the long run.

Soon their prices will improve. Equities as an

asset class still remain the best form of investment due to their tax efficient characteristics. There is no other better investment opportunity available as compared to equities. Moreover, the government also wants to keep the stock market vibrant and hence is focusing on weeding out manipulations in penny stocks.

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