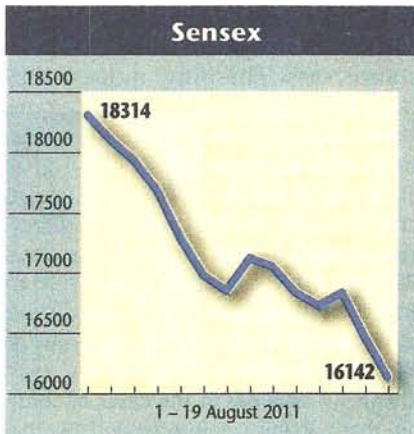


THE RUMBLINGS AFTER

Volatility notwithstanding, investors should do well to nibble at equities for the long term

Post Diwali (last year), the BSE Sensex was riding high in the 22000 zone. Then it fell to the 17000 to 19000 levels in February 2011. And many thought that while the market would be range bound, it would not fall much further. Even *Business India*, three months back, said there could be 'hidden gems', that were worth picking up.

However, on account of both domestic and global issues the markets have sold off in recent months. The



concerns on corporate governance and corruption issues have held back the government from moving ahead on the reforms front. Internationally, growing worries that the US economy was sliding back into recession and fears of a debt crisis spreading in Europe led the investors to book profit across the board.

Beginning August 2011, the Indian stock market indices (see graph: *Sensex*) has taken a beating as values diminished. In fact, on 19 August 2011, the Indian stock markets witnessed a bloodbath with the Sensex slipping close to the 16000 mark for the first time since May 2010. The Nifty fell below the 4800 level. On the volumes front, over the last two

weeks value wise there has been no dramatic change on the NSE with the cash market and F&O average hovering at ₹11,507 crore and ₹1,37,474 crore respectively. In the near term, market-watchers feel that the Sensex could breach the 16000 level or the drop could be harsher at 15000-odd levels.

DOWNGRADE and EUROZONE

This time around, the big trigger for the market downside was the downgrading of the US sovereign rating by rating agency Standard & Poor's together with the ongoing eurozone debt muddle. Worldover, the markets have been showing weak signals over the past six months or so due to uncertainties in employment, higher spending on welfare programmes and reduction in government revenues. "The markets have not plunged due to the downgrading; it has just acted like the trigger that shook the markets all over the world," says Lalit Dangi, chairman of Libord Finance. He feels that if the stockmarkets all over were down only due to the downgrade, then US government securities would not have been purchased at the highest volumes on the day the market crashed (on 8 August 2011). "It shows that in spite of the downgrade, investors found US T-bills more attractive."

D.R. Dogra of CARE rating draws a distinction between the two markets – global and Indian. "Global markets will continue to be driven by developments taking place in developed countries – especially the US and eurozone. On the domestic front, what will drive

our markets will revolve around factors such as economic news, policy developments and political issues. We will have to track how our numbers look on industri-

al growth, monsoons, exports, GDP growth expectations, etc, which will cause short-term gyrations. The Indian growth story is still stronger than those of other markets and should hence still attract such investment," he says.

FII OUTFLOW

On several occasions in the past we have seen that India needs a catalyst in the form of FII inflows before the markets start moving up. The FIIs have been the price setters in the market. With all domestic funds and investors singing along in chorus. Out of the last 13 days of trading, to 19 August 2011, barring three days, there has been a net outflow. FIIs have been net sellers (see graph: *Net FIIs*). With this kind of sell off, the Sensex slide would have been far steeper, had insurance companies like the state-owned Life Insurance Corporation of India not stepped in to buy stocks. For instance, in the days between 1 and 4 August, domestic institutional investors bought on average \$175 million of stocks daily. Their buying helped offset large selling from FIIs.

Although in the short term till the end of the year, we would see more outflows, there is little doubt that over the long term, India will see disproportionate inflows, as it will remain one of the best performing economies globally. "Our long-term potential growth rates still make us



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