For Private Circulation

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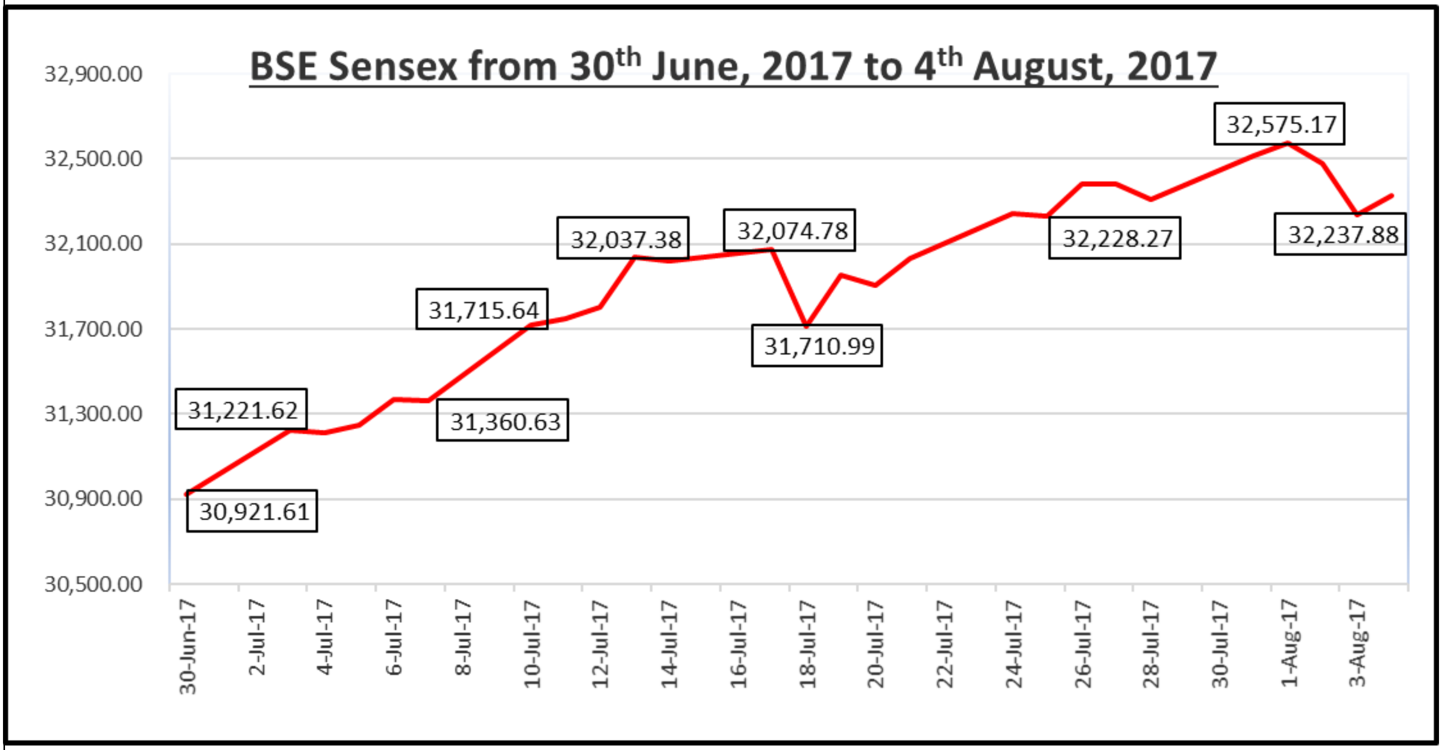
Sensex at new High; Nifty scales 10,000 Mark



Nifty crosses 10,000

July was a historic month for the capital markets. Nifty, one of the leading broad market indices, widely followed in India and globally, whizzed past the 10,000 mark for the first time in its 21 year history. The figure of 10,000 is an important milestone and when the history of this bull market is charted, 25th July 2017, the day 10,000 level was crossed, will be a landmark day. Launched on 22nd April, 1996 with a base value of 1,000 (3rd November, 1995), this index has delivered a compounded return of 11.17 % excluding dividends.

Although this return may not appear to be extra-ordinary, the journey of this data series, has been through one of India's worst period of economic stagnation and political instability. For the first nearly 8 years, this index moved sideways and it was only on 3rd June, 2003 that it decisively crossed the 1000 mark; never to go back to that number again. There was a brief rally in 1999-2000, during the dot com boom in Nasdaq, but broadly, the first few years were challenging. Excluding the year1999-2000, India's GDP grew barely 5.40% during that period which explains the sideways movement of this index with its tag line '*Stock of the Nation*'.

Key Question on Investors' Mind

The crossing of an important level of an index does create ripples and investors new and old do pause to envision the future roadmap. Since a strong rally precedes the crossover, the more important question on everyone's mind is:

"Is this a good level to invest?"

Unfortunately, there is no simple answer. Predicting the future movement of an index and its underlying stocks may be a full-time occupation for many but no one has successfully timed or forecasted the market with accuracy on a consistent basis.

Buying Quality Stocks at Peaks Deliver Long Term Returns

Even after following the street for decades, we find it bewildering to come up with a convincing answer. Stocks have rallied phenomenally and are at expensive valuations; which may not justify fresh investment. Yet the fundamentals are sound, liquidity is abundant and there appear to be no threats on the horizon. Even perceived road blocks such as demonetisation and GST implantation blues have not been able to stop the bulls from charging ahead. To compound matters, with every passing day, opportunities are being lost as stocks continue to rally. Therefore, what should be the investor strategy?

Our suggestion would be to gradually buy into quality stocks. A bull market top may be created at any point in the future and while that is unpredictable, what we can say with certainty is that even if quality stocks, especially of companies with secular growth dynamics and strong balance sheet, are bought at peaks; they will not only protect capital but deliver inflation beating returns in the long run post a bull market.

In a study, we compared the prices of companies (Market Cap > than Rs. 1,000 crores) between two previous peaks – 14th Feb, 2000 and 10th January, 2008 to test this hypothesis. The results presented below are very interesting:

Winners and Losers from Peak to Peak

Peak to Peak (Mkt Cap > 1000 crores)

	Top 20 Gainer				Top 20 Losers		
Company	**Adj. Share Price as on 14th Feb 2000 Peak**	**Adj. Share Price as on 10th Jan 2008 Peak**	**xIRR Returns between 2 Peaks**	**Company**	**Adj. Share Price as on 14th Feb 2000 Peak**	**Adj. Share Price as on 10th Jan 2008 Peak**	**xIRR Returns between 2 Peaks**
B H E L	17.04	487.20	52.80%	Pentamedia Graph	1,704.54	11.00	-47.14%
NLC India	8.50	234.35	52.09%	Trigyn Techno.	2,077.25	30.40	-41.38%
A B B	58.53	1,495.70	50.64%	H F C L	1,285.00	54.35	-32.96%
S A I L	10.45	248.75	49.30%	PVP Ventures	4,435.00	213.85	-31.84%
Siemens	42.38	1,001.50	49.16%	Sri Adhik. Bros.	1,131.48	62.47	-30.66%
Bank of India	18.55	397.65	47.33%	Cybertech Sys.	448.88	29.80	-29.03%
Larsen & Toubro	48.78	934.94	45.26%	Silverline Tech	1,171.00	122.85	-24.80%
H D F C	35.55	625.79	43.71%	GTL	1,854.90	282.55	-21.17%
Reliance Capital	164.60	2,741.75	42.71%	Polaris Consulta	724.67	127.20	-19.75%
Adani Enterp.	43.21	565.72	38.43%	Sonata Software	251.77	51.00	-18.28%
Tata Steel	80.07	854.10	34.89%	Zee Entertainmen	699.00	146.28	-17.94%
Reliance Inds.	143.29	1,513.53	34.72%	Aftek	386.67	81.90	-17.82%
Bosch	459.90	4,771.50	34.42%	Zensar Tech.	370.20	89.45	-16.44%
O N G C	21.11	215.37	34.13%	Saregama India	1,168.65	311.15	-15.41%
M R P L	13.60	125.90	32.49%	Hexaware Tech.	137.12	40.88	-14.19%
Grasim Inds	60.55	551.44	32.22%	Shyam Telecom	414.75	129.30	-13.70%
St Bk of India	25.23	227.25	32.03%	Mastek	1,098.75	343.85	-13.66%
Reliance Infra.	288.05	2,465.10	31.18%	NIIT	396.66	136.50	-12.62%
GAIL (India)	28.75	245.00	31.11%	Novartis India	959.70	379.70	-11.06%
Bank of Baroda	10.67	88.73	30.71%	BPL	378.00	157.85	-10.45%

1. There are many commodity companies – metals, oil, refining etc. in the list of gainers. The reason is that global growth was strong during that period with China firing on all cylinders. This scenario may not repeat in present times with many geographies including China slowing down. Nonetheless, these companies had strong balance sheets with good operational foundation, which is why they succeeded.

2. A few infra and capital goods manufacturing companies also make it to the list as this was a neglected sector in the early 2000s and government impetus led to massive expansion in the decade that followed. In the present circumstances, the demand for new infra projects is strong but banks and financial markets are not keen to fund new projects due to past failures which have led to massive bad debts.
3. Strong secular growth stories with a focus on domestic consumption may not appear in the list of gainers but these stocks did well as can be seen in the table below.

Company	Industry	Adj. Share Price as on 14th Feb 2000 Peak	Adj. Share Price as on 10th Jan 2008 Peak	xIRR Returns between 2 Peaks
Hero Motocorp	Automobiles - Motorcycles / Mopeds	180.15	686.80	18.43%
ITC	Cigarettes	20.67	73.23	17.34%
Nestle India	Food And Dairy Products - Multinational	402.95	1,441.70	17.49%
Britannia Inds.	Food And Dairy Products - Multinational	140.09	310.00	10.56%
GlaxoSmith C H L	Food And Dairy Products - Multinational	445.00	682.90	5.56%
Asian Paints	Paints / Varnishes	18.29	116.09	26.32%
Colgate-Palm.	Personal Care - Multinational	88.23	231.08	12.94%
P & G Hygiene	Personal Care - Multinational	462.67	768.30	6.62%
Hind. Unilever	Personal Care - Multinational	231.40	228.80	-0.14%

4. Maximum damage was in stocks where there was a bubble, such as technology, media and telecom (TMT) companies.
5. Weak companies with leverage and poor business model never returned to their peaks and the loss of value was permanent.

On testing this theory in present times, we identified the winners and losers from the immediately preceding bull market top of 10th January, 2008 to the present day and the results reiterate our stance that quality companies bought at highs deliver decent returns as can be seen below:

Winners and Losers from Previous Peak to Present

Peak to Present (Mkt Cap > 1000 crores)							
	Top 20 Gainer				Top 20 Losers		
Company	Adj. Share Price as on 10th Jan 2008 Peak	Current Share Price - 4th August, 2017	xIRR Returns	Company	Adj. Share Price as on 14th Feb 2000 Peak	Current Share Price - 4th August, 2017	xIRR Returns
Eicher Motors	381.45	31,590.75	58.63%	Unitech	517.55	8.23	-35.12%
Bajaj Fin.	47.61	1,723.00	45.48%	Rel. Comm.	796.00	23.25	-30.86%
Page Industries	477.20	16,367.50	44.67%	MMTC	1,734.17	58.60	-29.80%
GRUH Finance	19.78	503.60	40.24%	Aban Offshore	4,927.35	177.10	-29.35%
Whirlpool India	48.65	1,156.50	39.24%	Suzlon Energy	451.39	17.70	-28.70%
TVS Motor Co.	33.23	599.00	35.27%	Bajaj Hindusthan	307.83	15.60	-26.77%
Supreme Inds.	67.13	1,102.20	33.96%	JP Power Ven.	123.25	7.18	-25.69%
Motherson Sumi	21.33	336.10	33.38%	Jai Corp	1,282.00	81.60	-25.00%
Godrej Consumer	64.23	960.55	32.65%	H D I L	1,017.84	75.75	-23.77%
Aurobindo Pharma	49.33	725.20	32.42%	GTL Infra.	83.80	6.86	-23.01%
IndusInd Bank	115.40	1,665.15	32.16%	Patel Engg.	947.50	78.65	-22.89%
Torrent Pharma.	92.93	1,272.75	31.44%	JP Associates	287.30	25.35	-22.40%
Shree Cement	1,329.70	18,069.50	31.33%	Parsvnath Devl.	248.40	23.05	-21.99%
Cadila Health.	39.48	531.60	31.21%	M T N L	187.80	19.55	-21.05%
Britannia Inds.	310.00	3,913.40	30.33%	Netwrk.18 Media	467.86	54.00	-20.19%
Amara Raja Batt.	65.47	805.65	29.98%	Hind.Copper	511.00	62.10	-19.76%
Berger Paints	20.09	241.90	29.69%	I O B	192.65	24.55	-19.36%
Bayer Crop Sci.	405.85	4,570.05	28.78%	Tata Tele. Mah.	53.96	7.44	-18.70%
Kansai Nerolac	40.25	444.15	28.51%	GVK Power Infra.	82.16	12.35	-17.96%
P & G Hygiene	768.30	8,133.25	27.95%	BF Utilities	2,382.85	367.65	-17.74%

Blue-chip names in private sector banking / NBFCs and consumer oriented sectors such as automobiles (including ancillaries), FMCG and paint companies delivered the best returns in bear markets and the next bull market which followed. On the other hand weak, highly leveraged companies with doubtful corporate governance standards witnessed significant impairment of value.

The common thread amongst the winning stocks, be it Eicher Motors or IndusInd Bank or even a commodity stock like Shree Cement was that their business was robust, strong and capable of generating earnings growth on a consistent basis. The losers were counters which were hyped during the preceding bull market and management misled investors with their grand plans which never materialized.

Present Strategy

In conclusion, it would be great if the market presented a correction to buy into stocks but if not, rather than wait; we would advocate buying into high quality blue-chip companies with a long-term view. Even if the market turns and a bull market top is created, these companies will protect capital and deliver a decent return over the next few years.

The returns of the portfolios managed by us are as under:

			ANNUALISED RETURNS AS ON			31-07-2017	From
Date From	**01-07-2017**	**01-05-2017**	**29-01-2017**	**31-07-2016**	**01-08-2015**	**01-08-2014**	**01-08-2012**
	1MONTH	**3 MONTH**	**6 MONTHS**	**1 YEAR**	**2 YEAR**	**3 YEAR**	**5 YEAR**
Elixir Equities Portfolio Performance (avg for all clients)	**6.26%**	**8.08%**	**19.90%**	**19.88%**	**16.04%**	**21.31%**	**24.82%**
SENSEX	**5.13%**	**8.74%**	**16.76%**	**17.88%**	**11.34%**	**11.16%**	**14.03%**
NIFTY	**5.82%**	**8.44%**	**16.80%**	**18.61%**	**12.45%**	**12.42%**	**14.71%**
Out / UnderPerformance	**0.44%**	**-0.66%**	**3.10%**	**1.27%**	**3.59%**	**8.89%**	**10.11%**

Dipan Mehta

SMART INVESTING – XXII
- Avoiding Common Selling Mistakes

Error 1 : Selling Early

In our previous newsletter, we had discussed '*Avoiding Common Buying Mistakes'*. Since exiting a stock is equally important, investors should not make mistakes in selling. In this context, based on our experience, the primary misstep investors make is selling early. The temptation to book profits is enormous and in some instances, there is external pressure from family members or the broker/advisor to sell a stock which has appreciated. If the stock is underperforming or if there is any transient bad news, the desire to sell increases. However, if the underlying fundamentals are strong and more importantly, the reasons for investing are still intact, the investor should stay put and avoid a hasty exit.

Avoiding Selling Early

It will help, if before selling, a simple question is asked – '*Why am I selling?'* If the answer is '*… because the stock has rallied'* or '*... let me book some profit now and I will buy the stock when it dips'* then the reasoning is completely wrong and the investor will regret exiting from a winning position. Stocks which deliver extra-ordinary returns are rare and if by chance or design, a reasonably large sized investment has been made, the investor should keep the conviction going and exit only if there are material changes in the growth trajectory.

Error 2: Not Selling when Fundamentals

The opposite argument is also true, where the investor remains married to a stock, and just because its past track record in wealth creation is exemplary, he / she does not sell even when the writing on the wall is clear and circumstances have changed which necessitate booking of profits. A low acquisition price provides comfort and then there is the lure of dividend; but here too, courage has to be mustered to let go of a share which has perhaps delivered multi-bagger returns. This decision may be easier if the funds so released are re-invested in another high performing asset, could be a house property for self-use, or some equally good blue-chip equities.

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Error 3: Panic Selling

Panic selling is another common mistake. Once a decision to sell has been taken, a plan should be put in place to optimize the returns. If the stock is not too volatile or loosing value rapidly, it may be sensible to spread out the sale trades. On the other hand, if there is selling pressure in the counter then selling at one go may be the right strategy. The investor has to judge the counter before deciding on the manner of exit.

Checking Tax Implications

Prior to effecting a sale trade, it is advisable to check if there is any corporate action on the horizon. For example, if the company has announced a dividend or bonus or split of right issue then a slight modification in the timing of sale may be required. In the event of a dividend or split, selling after the event may increase the average realization but if there is a bonus of rights issue, selling cum-bonus / cum rights may be more optimal as there are tax implications to consider.

Sale is Cum Bonus		
Qty	1,000	
Purchase Price (< 12 months ago)	10	
Sale Price	50	
Long term capital Gain	40	
Tax	nil	
Net Sale Proceeds	50,000	
Sale is Ex-Bonus (assume 1:1 bonus		
Qty	500	500
Purchase Price (< 12 months ago)	10	-
Sale Price (ex-bonus)	25	25
Long term capital Gain	15	
Tax	nil	
Short term capital Gain		25
Tax		3.75
Net Sale Proceeds		48,125
Loss		-1,875

As per present tax laws, in the case of a bonus, the new shares which are allotted are at zero cost and the date of acquisition is the allotment date. If an investor sells bonus shares within 12 months then it attracts short term capital gains and that could be substantial because the cost is nil. In a right issue, the issue price and allotment date are applied for computation of capital gains and if the new rights shares are sold within 12 months, which is the investor's intention, then short term capital gains may become applicable (see example).

Careful planning of the liquidation of a position after considering the fundamental reasons, the near-term price volume activity and the tax considerations is *Smart Investing* and we urge investors to apply this in their trading strategy.

Dipan Mehta