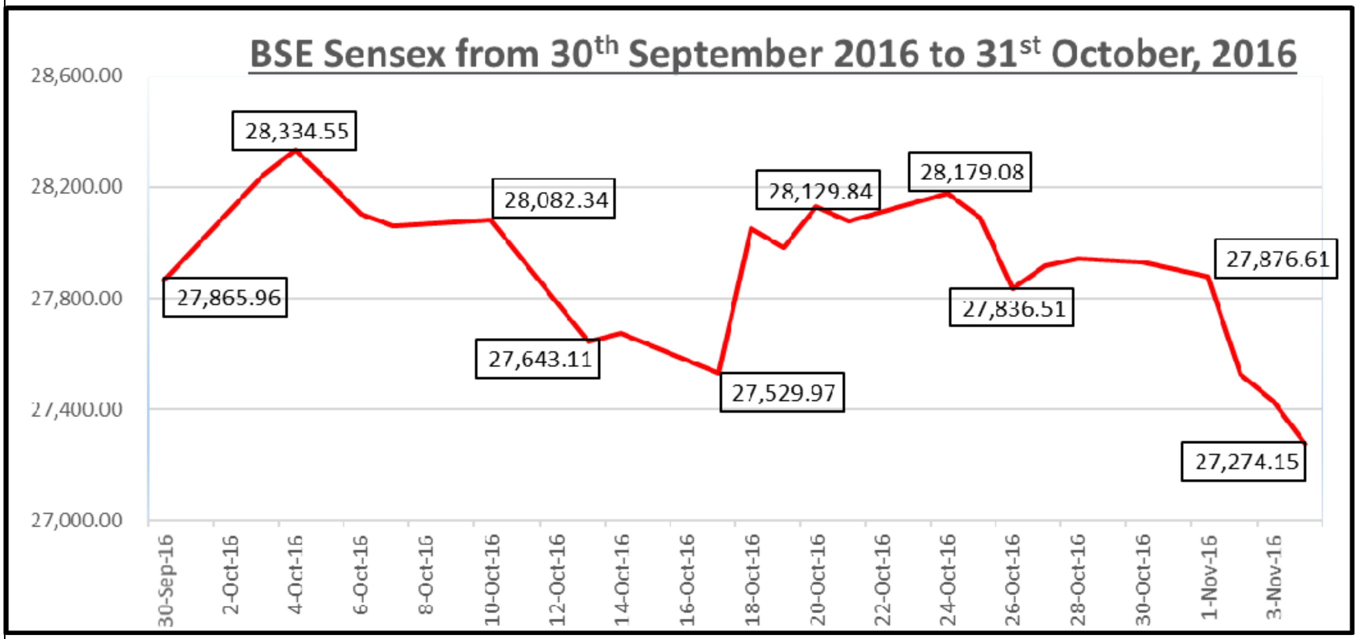
ELIXIR EQUITIES PRIVATE LIMITED

For Private Circulation *4th November, 2016*

Another Month of Sideways Movement



Three months of Sideways Movement

The sideways trend of earlier two months continued into October as well and the Sensex closed higher by just 0.23 % for the month. From the 28th July, 2016 close of 28,051 to the 30th October close of 27,930 (3 months), the broad market index shows a decline of 121 points or a miniscule 0.43 %. Absence of any market moving news flow is largely responsible for this range bound movement. With the GST nearing implementation stage, monsoon effect largely discounted and marginal decline in interest rate (¼ percentage) also factored in, most of the triggers for this phase of the bull market have already played out. This is the primary reason why markets have been lackluster for the past three months and may remain so till new reasons for an up move emerge.

Risks from the US Presidential Election

Attention has now shifted to the US Presidential elections where fresh risk factors have emerged. Until about 4-6 weeks ago, a Clinton victory was certain but in the past few days, the lead in the opinion polls has narrowed to less than 3 %; which is the margin of error. There is a strong possibility of Trump moving into the White House; a scenario which markets are dreading because of his strong protectionist views. From the viewpoint of the street, the equation is simple: A Clinton victory means stability, a Trump victory means uncertainty and disruptions.

Our assessment is that if Trump is elected as President, it will be negative for emerging markets including India and we should brace ourselves for a rocky ride once the results are known. A Clinton victory on the other hand may boost sentiment and global equity markets including ours could witness a relief rally. Since the outcome is unknown, investors should wait for the results of the US presidential elections before proceeding to invest further. As we analyze the trading / investment strategy post this monumental event we surprisingly come to the same conclusion – BUY.

If Clinton wins, stocks may not correct further and since liquidity flows are strong a risk-on trade may envelope all financial markets including ours. Stocks will rally notwithstanding valuation concerns. This would be a trading bounce which investors may or may not participate in.

On the other hand, a sharp FII led sell off post a Trump victory; will provide an ideal opportunity to tank up on Indian equities for the long term. More importantly, there will be valuation comfort as stocks would have adequately corrected to account for instability caused by Trump becoming the world's most powerful man. We would strongly advocate buying into such a decline as we remain convinced of the long term fundamentals of this bull market.

US Presidential Terms do not Impact our Markets

The logic behind this strategy is that US Presidential terms have no long term impact on our markets as is evident from the table below which show the Sensex movement in every US Presidential term for the past 24 years:

President	From	to	Party	Sensex at beginning of the Term	Sensex at the end of the Term	Sensex Appreciation	Period
Bill Clinton	20-01-1993	20-01-2001	Democrat	2,531.55	4,194.46	65.69%	8 years
George Bush	20-01-2001	20-01-2009	Republican	4,194.46	9,100.55	116.97%	8 years
Barrack Obama	20-01-2009	present	Democrat	9,100.55	27,274.15	199.70%	nearly 8 years

From the above table, it is clear that our markets have rallied based on our internal fundamentals and there is little effect of White House policies on our stock markets.

Fed Monetary Policy

Apart from the US presidential elections, global markets are also tracking the US monetary policy in December where, according to consensus, the Fed should raise interest rates by a quarter percent. This increase is being held back on account of elections there and there is a strong possibility that once elections are over and done with, the US Federal Reserve will proceed with its tight money policy. There is an outside chance that if markets are in turmoil, post a Trump victory, then the Fed may pause for the markets to settle down. However, they will resume their interest rate hiking programme once markets settle down. A rise in interest rates is generally negative for our markets as it would drive investment flows away from risky emerging markets such as ours to the safety of US government securities market. However, our domestic savings flows into equities are strong and a ¼ percent US Fed rate hike is more or less discounted. This could limit the damage from an increase in US interest rates.

GST and Earnings Season

In the Indian context, the focus is on GST implementation. The broad GST rates have been announced and there are no surprises there. We are now awaiting product classification, detailed rules and time lines for actual roll out. Temporary confusion and disruption leading up to 1st April 2017 (target date) and for a few weeks thereafter cannot be ruled out.

The earnings season so far has thrown up no surprises and many large sectors remained stressed viz. Software, pharma, corporate / PSU banks. Fortunately, the sectors in which investors are overweight have delivered an in-line performance. Private sector banks, NBFCs, automobiles and consumer oriented businesses such as building products and appliances have displayed steady growth and lived up to investor expectations. We are hopeful that the capex cycle will eventually revive and many more sectors will start displaying better trends thereby providing more choice to investors.

Investment Strategy

Our investment strategy remains the same as the previous month – buy at declines. We have been advising investors to stay on the sidelines for the past 3 months and the markets have been gradually correcting or moving sideways. Our assessment is that this range bound movement, with a negative bias, is coming to an end and markets could either break out on the upside or break down on the downside. For long term investors, a sharp correction will be a buying opportunity whereas a spike up would make it challenging to invest in stocks with a margin of safety.

The average returns of portfolios managed by us are as follows:

Date From	**28/09/2016**	**29/07/2016**	**28/04/2016**	**29/10/2015**	**29/10/2014**	**29/10/2013**	**30/10/2011**
	1MONTH	**3 MONTH**	**6 MONTHS**	**1 YEAR**	**2 YEAR**	**3 YEAR**	**5 YEAR**
Elixir Equities Portfolio Performance	**-1.41%**	**2.78%**	**15.43%**	**16.37%**	**18.05%**	**27.08%**	**21.36%**
SENSEX	**-0.99%**	**-0.95%**	**7.22%**	**5.19%**	**3.14%**	**8.62%**	**7.58%**
NIFTY	**-0.78%**	**-0.32%**	**8.27%**	**7.57%**	**4.95%**	**10.29%**	**8.41%**
Performance comparison	**-0.63%**	**3.10%**	**7.16%**	**8.80%**	**13.10%**	**16.79%**	**12.95%**

This month in our Smart Investing series, we are discussing a very important aspect of investing – "*Timing the Market Vs Time in the Market*". We do hope investors find this interesting and imbibe the core principles behind this concept.

Dipan Mehta

SMART INVESTING – XIII
- Timing the Market Vs Time in the Market

Timing the Market

Once the decision to invest in stocks is taken, the next logical question which comes to the mind is – "*Is this the right time to buy?*" This is an important question because stocks fluctuate and acquiring equities at low levels can make a significant difference in the returns a portfolio can generate. Unfortunately, there are no simple answers to this question. To complicate the situation, the best time to buy is when there is gloom and doom on the street and sentiment is so low that the conviction of most astute investors is shaken; which is why most investors miss out on catching the bottom.

On the other hand, the excitement to buy is highest when stocks have rallied and are already trading at highs. The future appears to be bright and rosy and that makes investing an easy decision. However, since stocks are being bought after a significant move up, returns are bound to be muted as the entry is at elevated prices. Hence, this strategy of buying at highs may not be a prudent decision. Therefore, if purchasing at market tops may squeeze returns and buying at bottoms, a difficult psychological decision, what is the way out?

The candid answer to this is that there is no simple solution .Smart Investing, though, has an approach, which may be helpful.

Determining Investment Horizon

Rather than focusing on timing the market, investors could ask the question, *"How long do I want to invest in the market?"* or *"How much time am I prepared to remain invested?"* If a clear answer to these questions is available then investing will become easy and fruitful.

Returns Higher in Long Term Instruments / Investments

As we explore the various options and asset classes for investing, it is evident that the longer we remain invested, the higher the returns. Banks offer higher interest rates for longer duration fixed deposits, government and enterprises are prepared to pay higher interest for longer tenure debt instruments and anyone who has successfully invested in land or property will confirm that best returns are when the asset is kept for several years, if not decades. This concept is true for stocks as well and there is a fair explanation for this principle.

Building Businesses takes Time

Investing in equities is akin to buying a small portion of the business and the value of the share will go up only if the business is a success and that takes time. Commissioning a manufacturing project, rolling out service branches, establishing a brand, testing and introducing new technologies or products, building an organization or any action which grows the business takes time which is why investors must think in terms of years and not months when they are contemplating an investment. Just as Rome was not built in one day, large highly profitable companies also take time to reach a stage where shareholders profit from the growth achieved and future prospects.Unless the investor has the patience to remain invested over this extended period of time will he / she will not be able to take full advantage of the underlying progress and prosperity of the venture. There are also business cycles to account for and that makes the task of establishing a successful company even longer.

Strategy for Investments made at Peaks

Therefore, rather than trying to time the market, it is better to spend time in the market (*read stock*). However, there may be instances when investors may have entered the market at highs and for that scenario, Smart Investing has two options:

1. Remain invested as the markets eventually create new highs by overtaking previous ones and if the investor is invested in the interim period, at least some return will be earned on the original investment even though this return may be subpar. Care must be taken to shuffle the portfolio such that the quality is improved and investments are in performing stocks. Staying put between two bull market highs without actively monitoring each holding is not sensible. Absence of cashflow may prevent fresh investment but that does not mean sleeping on the investments already made.

2. If the investor has additional cashflow available for investing, then fresh investments should be made into quality stocks at every correction. At some stage, the amount invested at troughs will be more than that invested at crests and what will emerge is a smart performing portfolio.

To sum up, rather than agonizing about timing the market, investors are wiser by being mentally prepared to invest for the long haul with option to deploy incremental savings if they are caught on the wrong side of the market.

Dipan Mehta