NooreshTech

Nifty - Kya Lagta Hai

Just picked up the last few posts on Nifty and consolidated it in an e-book for a quick read.

Table of Contents

1. Is Timing the Markets Important ? Absolutely !!!

2. Nifty - Bear Market Cycles/ P-E / FII Selling/ Global Indices co-relation.

3. How to Survive a Market Crash in 2016 ?

4. Nifty 2016 is a very different animal from Nifty 2008 !!

5. Thanks for Reading

Is Timing the Markets Important ? Absolutely !!!

by Beacon

One of the most used phrases by the Asset Management Industry.

"Time in the market is more important than timing the market"

Without going into the point of how to time the market or why is it important to time the market we look at how much would it hurt if you get the timing wrong HORRIBLY !!

Lets see it through examples.

Comment	Date Of Entry	Nifty Price	Nifty CAGR at 7530	large cap MF Cagr	Nifty CAGR at 9000
At the Top Of Cycle	01st Jan 2008	6144	2.60%	7.65% to .75%	5.50%
At the Bottom of Cycle	27th Oct 2008	2524	15.70%	22.1% to 12.35%	21.60%
At the Bottom of Cycle	9th March 2009	2573	16.60%	22.5% to 14.5%	23.20%
At the Top of Cycle	1st Nov 2010	6120	5.30%	8.8% to 5.02%	9.40%

Interesting Observations

- If you time it very badly - Catching the Top of 2007-2008 cycle or the 2010 cycle tops. The Nifty cagr return drops to 2.5-5% and even with mutual funds to 5-8%. That is below Fixed Income Return even when time frame is 5-8 years. This is terrible.

- Even at the next cyclical top like we had Nifty at 9000 the Nifty CAGR barely manages to go close to the risk free return mark like it shows 5.5-9%.
- If you get the timing exactly at the bottom of cycle (*you get a dream about Lehmann / Bear Sterns and Fed*) the returns jump to 15-17% on Nifty and 15-22% with mutual funds.
- After getting the bottom right and also the top right (now a dream of RBI and Raghuram Rajan rate cut creating a Nifty top) the returns jump to 21-23% cagr. Even if you were to use MFs the return would be 17-29% roughly. (*Now this is next to impossible*.)
- Data Source - www.nseindia.com and www.valuresearchonline.com

Why do Investors get their Entry Timing Wrong.

- There are two major returns the investors get their entry wrong.

1. **Mis-Selling of Products by Incentivised Sellers.**

For example the NFOs / Sectoral Funds in 2007. Remember ULIPs being sold with an assumption of 25% cagr returns by agents.

Close Ended fund offerings in 2014-2015 as it would imply high commissions for sellers. Assumption of 18% cagr for next decade or two.

2. Buyers Beware

There can be a very emotional case made against mis-selling but if its your hard-earned money you got to remember - Buyers Beware.

Also the psychology of buying equities and other products after seeing the success stories and the run in markets / herd mentality continues forever.

Investor Psychology

- if mis-selling was not enough Investors are not even made aware of the volatility in the Asset. Lack of financial literacy combined with psychological fear leads them to exit the same investments at the worst possible time. Like we saw Mutual Fund Redemptions in 2008/2011 and 2013 and like we are seeing now in 2016 or lack of strong inflows when markets have already corrected 20-25% from peak.

Investor Expectations

- Apart from lack of financial literacy is Investor expectations from Equities as an Asset Class. The same investor who is ready for 4-5% in LIC, 4-6% in Savings Account , 8% in FD which are all tax free has an expectation of 18-25-30% from equities.
- As an investment adviser i get asked this by my friends -

> *"Dude if i give you my money will you double it in 2-3 years ? "*

- At the same time a bunch of advisers who just extrapolate past returns also come out with excel sheets suggesting 18% returns in Large Cap Mutual Funds. (This no used to be 25% in 2007). I might be wrong but i would believe 4-5 % above the Risk-Free Return or Inflation is an amazing return. From a 8 -15% average Risk Free Return in 1990s to 2010 we are shifting towards 4-9% in next 10-20 years so our expectations should be 9-14%.

How long will it hurt if you get your entry wrong. (Timing is Bloody Important)

- If you bought at January 2008 at 6100 Nifty.
- Just to get a return of 6% on 10 yr Cagr/20 yr Cagr the Nifty has to be roughly 11000 by 2018. To get a 9% cagr Nifty has 14500. (Wow if Time in the market is enough an investor today can get a return of 20-25% or 40% cagr in next 2 years.)
- To get a 9% cagr over 20 years Nifty has to be 34000. (This would imply a return of 13.5-14% from today for 12 years. That i would say is a very tough task.)
- Another example is you bought at a Sensex of 3500-4000 in 1992 Harshad Mehta top and next top in 1994 your CAGR return today would be 8-9% compared to the average risk free return of 12-13%. (There would be lucky cases of individual investors sitting on some goldmines like Infosys Wipro etc)
- ***In simpler words - if you get the timing horribly wrong it could hurt you for next 10/20 years.***

How to get the timing Right ?

- Let us first accept that timing the market is damn difficult and some would call it impossible.
- But also you got to admit that how majority tends to get the timing horribly wrong. So as an investor one should only try not to get it horribly wrong like buying in 2007 and selling in 2009.
- There are various methods to get a good idea of timing.

1. **Nifty P-E Model**

One can read on this as to how buying when Nifty is above 22-24 p-e hurts and buying below 16-18 is a decent entry point.

Many have written on this. One example - Stable Investor

(As of today we are going into that zone or very close to it on dips and definitely not in the Horrible Time.)

2) Nifty CAGR Model

This is something I have been working on.

Whenever the 5 yr rolling CAGR / 10 yr rolling CAGR or 20 yr CAGR goes below the fixed income returns is a good time to start increasing equity allocations.

(As of today we are terribly placed on 10 yr and 20 yr cagr. This makes me believe every dip from here over next few months is a good time to increase equity allocation. With surety can say that is definitely not the HORRIBLE Time.)

Conclusion

Time in the Market is important but so is it important to not get the Timing Horribly Wrong. If that happens it could hurt you for 10/20 years.

Using a bit of common sense can take you a long way.

Also Equity as an asset class is a must have and my personal belief is over next 5-10-15 years it should do better in relation to other asset classes. But do you use a bit of common sense timing.

Disclosure - This is a personal view and I am not capable of advising on Mutual Funds as am a Direct Equity Guy and a big time believer in Equities.

Nifty - Bear Market Cycles/ P-E / FII Selling/ Global Indices co-relation.

by Beacon

This is a quick post.

Let me first give a **Disclosure**.

Totally invested at current levels. Ready to see further dips as no leverage. Also the experience of seeing many corrections since 2004 the apetite to see dips is definitely more and the comfort to ride too. My focus has been midcaps and do not hold large caps as such but they do look very interesting.

The whole post is just some rambling as everyone has now started focusing on the Index then on specific stocks given the momentum. So i am just writing some more information which may or may not be useful.

Why am i writing the post today. Yet again ?

I have been very clear about my market views and do not mind being caught on the wrong foot. As in markets you do get hit many a times but need to go ahead with your own conviction. With the budget day around and a lot of buzz around it is easy to talk about all sort of concerns LTCG from 1 to 3 year / Fiscal Deficit or a ream budget but not about what you think about the market. So lets look at different angles

1) Nifty Bear Market Cycles

Like I have mentioned in my previous article on -

Nifty 2016 and 2012 – Will Consensus of Downgrades be Wrong Again ?

that the general corrections/ bear markets in Indian markets lasted 12-14 months.

This chart by Jimeet Modi of Samco securites reduces my job to make the chart..

https://twitter.com/jimeetm/status/703129094418862082

So we are on the way to a similar time frame of correction. On a time cycle basis we might be close to a bottoming out zone.

2) Nifty P-E

This is a chart i saw on marketcalls.in and sourced from tradingview.com . As getting data from NSE is a pain nowadays.

1) The average P-E is closer to 15-17 times and has gone to the lows of 10-12 in worst of the bear markets.

2) It bottomed at a P-E of 16 in 2013/2011.

3) Nifty does not stay at the zone of 16 p-e or 10-12 p-e for more than few days. Also you never know where it will exactly bottom.

As per the data Trailing 12 months EPS = 370 and consolidated basis a little more. Broker estimates are for Nifty to do an EPS of 400 in Fy16.

So lets consider 370-400 as trailing EPS.

Scenario 1 : This bottoming out will be closer to 2011/2013 and we have seen the worst of earnings.

Nifty at 16 times = 5920-6400 in this case.

Scenario 2 : This is a bear market like 2008.

Nifty at 12 times = 4500-4800.

(I dont think its 2008)

3) FII Selling

There can be no logic to FII Fund Flow given the gamut of long only funds, Emerging Market ETFs, Sovereign Funds, Pension funds etc. So its extremely difficult to know how much will they sell, till when will they sell, When will they stop etc.

Just a few stats i pulled out from Moneycontrol.

1) Sold around 25k crores in Jan-Feb 2016

2) Since March 2015 when Nifty toppped at 9100 FIIs have sold around 55-60k crores.

3) In Oct 2007 to October 2008 they had sold around 1.2 lakh crores.

4) In 2011/2013 was not much around 20-30k crores max.

5) Surprisingly since March 2015 DIIs have bought around 80-90k crores.

So will they sell like they did in 2008. Will DIIs i.e local money which has been coming will stop like it did in 2008?

Tough to take a call but we have seen a lot of FII selling and someday it will stop. As a technical guy i would wait for few days of FII buying to confirm that.

4) Global Indices Co-Relation

Every time Indian markets move up or down there is a lot of talk of decoupling from global markets. The last time I felt so was in 2007-08 and that hurt real bad.

But generally what we have seen is in major bottoming out or topping out Indian markets play catch up with global indices with a lag.

Lets look at this chart in 2008

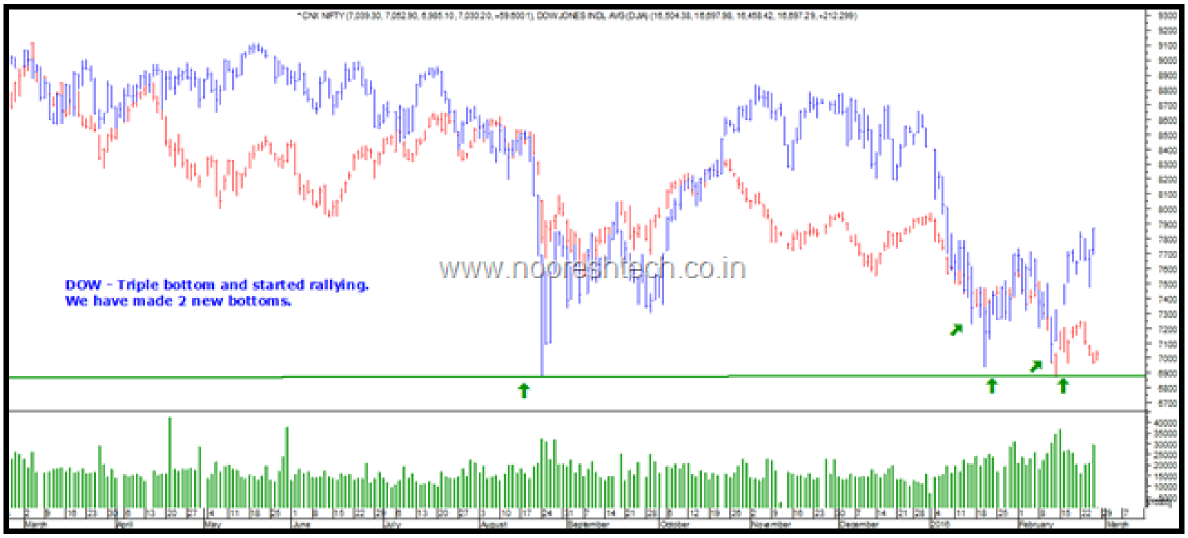
- Nifty topped in January 2008 but Dow Jones had topped out in Oct/Nov 2007.
- Nifty actually rallied hard in December-Jan 2007.
- The magnitude could be large but can see from the chart as to how direction is similar.

Dow and Nifty bottomed out together in 2009

Dow and Nifty 2011 - A good lag and then catch up

- Dow bottomed in Sept/Oct 2011.
- Nifty made 2 more bottoms till December 2011.
- Nifty then rallied 20% in 45 days to play the catch up.
- Both indices ended up nicely for the year.

Dow Jones and Nifty 2016 -- Again a lag and will play catch up --- (Thats my bias)



- Nifty has made two new lows at 7240/6870 compared to triple bottoms of Dow.
- Dow has moved up 1000 points from the lows and cross intermediate highs.
- Will we play catch up ? (*This is my view. I can be totally wrong too but thats how am positioned.*)

Conclusion

- Technically it looks like a very important area time wise and price wise. The big confusion is whether this is a normal corrective move like in 2004/2006/2011/2013 and if it is do we have another leg down before bottoming out.
- 6400-6600 is the worst case on a lot of parameters like P-E and previous tops of 2007 around 6400 if there is one more leg. I do not know whether the next leg is coming or not but am ready to digest the pain. (Personally believe even if it comes will not stay there for many days)

- I do not believe its a 2008 type bear market.
- Also have generally preferred to buy before the last leg as some times it does come and some times it does not. Like in 2011 we bought at 4700-4800 and saw 4500 only for 2 days or at 5500-5300 in 2013 and saw 5100-5200 for 2 days. So dont mind a temporary hit on the portfolio if there is a possibility of a good return over the medium to long term.
- More important to note is in all the above cases post bottoming out Nifty has rallied very strongly over the next 1-3 years.
- I believe the current markets are an excellent opportunity to buy stocks and if you already have then just stick to it. Also a good time to deploy cash and even fresh cash on various parameters.
- Also if another 10% drop in Nifty and 15-20% drop in stocks going to scare you its a tough thing as that can happen all the time :)
- My personal view is in a little dramatic way - Beg/Borrow/Steal and Invest for the Long term now (1-3 years minimum)
- I can be totally wrong and am also biased given that I am long so please do your own research and risk management.

How to Survive a Market Crash in 2016 ?

by Beacon

If this title excited you then you would be disappointed as am not writing nothing new.

Taking some points from this article I wrote in June 2012 .

http://www.nooreshtech.co.in/2012/06/how-to-survive-a-market-crash-and-end-of-the-world-in-2012-sunday-thoughts.html

Do read it.

Back then some similar points today

1) 2 yr Germany treasury notes at negative yields in 2012.

In 2016 its 10 yr Japanese government bond yieds hit sub zero and so did some more in European countries.

2) US dollar was a few years back was considered toilet paper and is now rallying against almost all currencies in the world.

A lot of emerging market currencies have depreciated 30-50% even Yuan is being depreciated. USDJPY and many other pairs going crazy

3) The speculative money going into commodities is running away with Brent crude at sub 100 and Nymex crude at 83.

Now in 2016 Crude is at 30 $ and a lot of OPEC countries feeling the heat. (Where is the speculative money going now ? - No idea)

4) There are so many predictions of dooms day around the net and very few about turnarounds.

The sentiment is so bad that no one thinks budget is an event or GST is history. Can you even think of one good thing happening which could change course of markets? Predictions have started from 22000 -15000 Sensex. But remember the predictions of 36000 in March 2016 and so on in the year 2015 :)

Speaking to a lot of people and reading a lot of macro articles even my conviction is being tested and so is yours :) Thats how markets are - Got to live with it. One good investor told me a nice line.

You buy a stock at a price from where you believe you can make Money. Rest Markets will decide the temporary loss and eventual profit. So do your homework and just sit on yout fat bum:)

I continue to remain optimistic for the future , Markets, Finance and World finds a balance to survive and Mankind too:). On the market crash i am already down 20-25% from peak. So its already a crash.

<u>No Situation is Permanent. ye waqt guzar jayega</u>

🙂

The last time I wrote the Article on June 6th 2012 Nifty was at 4800 never to seen again. Fingers crossed. :)

Nifty 2016 is a very different animal from Nifty 2008 !!

by Beacon

Over the last couple of days have seen a lot of discussions as to how Indian markets are possibly getting into a phase like 2011 (my view) and 2008 (the fear view) and how a lot of sectors are so troubled.

So everyone has a view from 7200 to 6300 to even some crazy 3800.

The funny part is nobody knows what are the constituents of the Nifty and their weightages. Also these constituents change marginally on a daily basis because of calculation being free float market cap.

So lets not get into details and look into Nifty and its constituents as 31st December 2007 and 31st December 2015. There are some amazing revelations.

I am just putting the Top 20 weights as that is almost 75% of the index. You can download the full weightage file here.

Nifty 2007 and Nifty 2015.xlsx

Stock Code	Weightage		Stock Code	Weightage
INFY	7.78		RELIANCE	12.15%
HDFCBANK	7.55		ONGC	7.13%
HDFC	7.03		BHARTIARTL	5.49%
ITC	6.49		NTPC	5.45%
RELIANCE	5.91		SBIN	4.61%
ICICIBANK	5.36		ICICIBANK	4.29%
TCS	4.43		RCOM	4.17%
LT	3.68		LT	3.59%
SUNPHARMA	3.15		BHEL	3.40%
TATAMOTORS	2.67		SAIL	2.99%
AXISBANK	2.65		INFOSYSTCH	2.89%
KOTAKBANK	2.61		TCS	2.88%
SBIN	2.45		HDFC	2.71%
HINDUNILVR	2.16		ITC	2.48%
MARUTI	2.16		RPL	2.41%
M&M	2.07		UNITECH	2.10%
HCLTECH	1.68		WIPRO	2.08%
BHARTIARTL	1.66		HDFCBANK	1.87%
INDUSINDBK	1.66		TATASTEEL	1.82%
LUPIN	1.56		STER	1.78%

Now some amazing facts !!

- Out of the Top 20 stocks in 2007 only 10 remain in 2015 in the Top 20 weights.
- Out of top 20 in 2007 there are 4 stocks which are not part of Nifty. (RPL got merged in RIL). This constituted 11.67% of Nifty.
- Out of the Top 10 weights in Nifty only 3 remain in Top 10 of 2015. These 3 constitutred 20.03% of Nifty and are now only constituting 14.95% of Nifty.
- **The top 4 weights of 2015 Infosys/ hdfc bank / hdfc / itc now command a weight of 28.85% but used to command only a weight of 9.95% in 2007 !! -------------- (WOW)**
- **Reliance Industries and Reliance Petroleum i.e RIL an RPL had a combined weight of 14.56% and now its only Reliance with a weight of 5.91% ------------------ (WOW)**
- **Rcom was the 7th largest weightage in Nifty is no more part of it. Even Unitech was at the 16th place.**
- ONGC the 2nd largest weightage on Nifty is now at the 21st place. From 7.13% to 1.56%.

Quite a lot of this is due to the change toward free float methodology and the big drops in many stocks and big rallies in others. You may find much more such facts.

Sectoral Changes

- The big sectoral shift has been from Oil and Gas to Banking. Oil and Gas was at 24.46% in 2007 and is now 9.14% and Banks were 11.46% are now 23.94%.
- Telcom was a darling in 2007 with a weightage of 11.26% and now closer to 2.1%.
- IT was at 7.2% in 2007 is now at 15.02%
- Metals and PSU banks weightages have reduced by half.
- **The big shift is Nifty was an index which in 2007 had majority of the index tilted towards investment linked sectors such as Oil and Gas, Telecom, Power, Industrials. This has now shifted towards sectors which are Banks, Financials, export oriented - IT and Pharma.**
- Such a shift is a major reason for polarization in sectoral/stock performance and Nifty.So we have a bunch of stocks down 50-70% but Nifty is up 20% since 2007.

To simply put Nifty today is a totally different animal then from what it was in 2007 and thats why the magnitude of ups and downs have reduced. We have a bunch of solid businesses (unlike frothy ones in 2008) at the top of Nifty top 20 or a lot of crazy moves which have happened in smallcaps/microcaps.

For example even if the most troubled sector - PSU Banks like BOB SBI and PNB were to fall another 50% in next few months it would impact the Nifty by only 100-150 points.

Sentimental Analysis

- The whatsapp groups, phone calls i receive and much more information tells me majority of the people are in different camps like Nifty 7200 Nifty 6300-6700 and bullish ones in Nifty 8500 Nifty 9500 and so on. But i dont see a camp which believes Nifty could remain range bound for quite some time to come with swings.
- There is a lot of discussion on how markets have gone up because Domestic inflows in Midcaps/Smallcaps , How FIIs are selling and everything but a discussion on Stock Specific Fundamentals. The worst part it is all about feelings and emotions and no hard data to connect the

dots.
- In my very little experience of tracking markets for 10 years I have never seen a panic come when everyone is scared or where everyone is looking at Macro.

Conclusion

Nifty 50 today is a different animal which will not have big swings like it used to in 2005-2008 and will continue to be in a much tighter range then people expect like it did in 2012-2014.

My personal view is Nifty could bottom out around 7200-7400 a few 50-100 points here and there but will make a reversal slowly. But any incremental positives across global macro, domestic macro, Inflows or whatever you can discuss can lead to a sharp up tick from lows of 10% +. Think the current scenario is very similar to the one in 2011. This post will explain my technical perspective - http://www.nooreshtech.co.in/2016/01/nifty-2016-and-2012-will-consensus-of-downgrades-be-wrong-again.html

Also I would suggest you put all the worst possible prices you think for the Top 20 Nifty stocks in this excel sheet on Pessimistic Nifty and you would know what Nifty could be - http://www.nooreshtech.co.in/2016/01/nifty-calculator-january-2016-kya-lagta-hai.html

Thanks for Reading

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