



July 4, 2008

I have usually been writing as an advisor, but as an individual I'm an investor as well. I have put together some thoughts below by putting myself in different shoes, hope this would be of some value to you.

An investor's perspective

This month I have prepared the worst portfolio statements ever since I started UpMarket Financial Advisory Services almost 30 months back, and even though I hope that there is no further worsening of the situation, at the back of my mind I am fearful that we may not have seen the worst yet. Also, this period of uncertainty may last for a reasonable period of time given that there is nothing visible in the immediate future which can perk up the market. There is lots of uncertainties viz. oil, politics, inflation, interest rates, rising commodity prices, further sub-prime write-offs and stock markets do not like uncertainty.

In view of the above I'm wondering should I withdraw now to reinvest later or hold on till I recover my losses? Since I do not need the money and I've seen this kind of phase before, I'm holding on as I'm optimistic about India's future. But what about fresh investments, should I put in more now or keep the money safe because I have lost so much in the market(notional, actual or both)? Well I should keep something safe so I invest this money in an FMP because I'm getting good yields for short as well as long-term.

An advisor's perspective

The thought process above is much better than an investor who will get fearful and pull out now but not necessarily the best. By not investing in equity and instead putting ALL money in debt I'm reducing my exposure into equity in percentage terms, which is exactly what I should NOT be doing in a falling market.

I agree that things don't look too good, but I know that 13,000 index is definitely much lower than 21,000 index and if I was willing to buy at 21,000 with a hope of 25,000 then I should be willing to buy at 13,000 too because the hope of 25,000 is still alive. It has just been pushed slightly farther in the horizon. 13,00 to 25,000 could possibly double my money whereas 21,000 to 25,000 will have just given me 20% return.

In light of the above, I'm asking almost everyone that despite the difficult times which may last for some time, it would perhaps be the best time to build a portfolio in equity. The usual response is that we will start investing on the first

Disclaimer: UpMarket Financial Advisory Services and Rajiv Satija offer non-discretionary investment advisory services and the decision for investing would be at the sole risk and responsibility of the customer. This document does not purport to be an advice for purchase of any instrument mentioned herein. Please refer to offer documents and scheme specific risk factors before investing



UPMARKET

Quality Advice. Efficient Service

signs of stabilization and the next move up. The problem is you will not get to know when will it happen and even if say you do start investing then, you would not be able to invest as much in one go or in a short span of time, as a result you will again make gains on smaller amounts. Thus if you do not need the money the market is not too expensive today or in other words it is definitely cheaper than what it was in January so have the courage to invest now and gradually over this 'bad' phase.

If I had a time clock and could rewind all of us into the period 2000 – 2003 I'm sure all you investors would have doled in huge sums of money. Maybe all that you saved during that phase. So, maybe a similar phase is on right now. I'm not asking you to invest all you have, but some and gradual depending on what you can forget for a long period of time without disturbing your other needs/finances. It's not that we are in a crisis situation for the first time in Indian markets. We have seen many crisis before including assassinations of our prime ministers, gulf war, south east asian currency crisis, 9/11, India on the brink of bankruptcy but despite that equity has delivered more than 17% CAGR which no other asset class can match so even this phase will pass some day.

It is difficult to be optimistic at these times but I'm still extremely optimistic about our prospects as an economy and country. I have a vested interest in this not just from my business perspective but also as a citizen.

Remember '*return is simply a reward for risk*'

The Macro perspective

This is something that I heard from a Fund Manager in a conference call yesterday, it sounded logical so I thought I will put it across to you as well.

Contrary to popular belief India's inflation and Oil crisis is largely self-inflicted. The world knows that both India and China are growing economies and LARGE importers of Oil. Both these countries are subsidizing Oil in the domestic market. Now, if the government continues to subsidize oil, all of us as consumers have no incentive to reduce consumption, as a result government's debt burden will continue to rise. At prevailing yields of 10% + for a 25 year government paper, the government is writing its own obituary, as the country will go bankrupt. The government will not be able to service so much debt at that rate, the rates have to come down. It is similar to an Individual borrower's home loan rates going up from 5% to 10% will make it difficult for people to pay back and the default rates increase. Something like the US 'Sub-prime'.



UPMARKET

Quality Advice. Efficient Service

If the government was to pass on the price hike to consumers and say the price of gasoline is INR 95/litre. All of us would think of innovative ways to reduce consumption, as a result demand for crude will fall in turn leading to a fall in price. Also, an increase in petro prices would make lesser people buy cars, thus less demand for steel and thus less demand for base metals and thus lower commodity prices. In a way everything is interlinked.

My personal guess is that the price of crude is being driven by fear. A fear that it will touch \$150 and \$200 and this is causing people to buy their future requirements now. It is like if there is a scare in the city that all fuel pumps are short on fuel, then everyone will go and tank up, as a result the pumps would actually run out of fuel.

Just like the stock market, the commodity prices could also fall some day and the fall would be as quick as the rise. I'm sure at that point of time there would be some sentimental driver to this and people would start assigning reasons to it maybe the end of Beijing Olympic Games and thus lack of demand from China, maybe US recession or anything else.

In summary

The gist of the long story above is that sky is not coming apart for the stock markets. Markets are supposed to be volatile and that's their very nature. One's who have the conviction to hold on will do well, others who have the courage to add during LONG rough times will do even better.