

Given up on Equities???

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When I was writing a month back I did not expect what the coming month had in store. I had thought that Sensex level of 10,000 was very bad, even though my gut said 9,000 is probably the worst. But I definitely did not expect Sensex at 7,697 and that too so soon. In October, the index was falling almost 10% everyday as though it was in a rush to touch ZERO and all businesses are going to crumble as banks will go bankrupt and no lending will ever happen again.

Pullback of the last one week has changed the scenario somewhat. As of today Sensex closed at 10,631 which is almost 38% higher from the lows of 7,697 it touched on 27Oct08. However, after having seen the worst crash ever in the recent history (28 years) of Indian Stock Markets, everyone is skeptical.

Once again I do not have any clue of where are we headed from here. But I have always believed that stock market quotes are not just numbers flashing on a screen, but they are backed by businesses, mostly and businesses go through their own ups & downs. As always, various economists and experts are putting their views across through various forms of media, mostly saying that the future outlook is bleak and thus the crash is justified. The most oft repeated statement being that the US is heading into a recession and this is possibly the worst economic crisis 1929. In my view, no one sane is possibly alive to tell us exactly what happened in 1929. I have also read that in at least a couple of crashes after 1929 and before this one, many analysts said it resembles 1929, but later it did not turn out to be that way.

I recently read that Mr Soren Kierkegaard, a Danish philosopher once noted, *life can only be understood backwards-but it must be lived forwards*. In hindsight we are all intelligent and should have withdrawn ALL funds from equity at 20,000 index levels, but hardly anyone did. Does that mean that all of us are fools!!! I don't think so and I think you will agree.

Over the last few months I have been asking people to start building portfolios for the next Bull Run, but now everyone is concerned about the global slowdown. Almost everyone *knows* that the Sensex is headed lower to 7000, 6000, 5000...



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As I do not know where the bottom lies, I would simply like to shift you back in time to the recent low of 7,697 Sensex and the stock levels on that day. I would request all of you to wear your businessman hat and judge for yourself if these levels made sense. **I must add in BOLD that the following are simply examples and NOT stock recommendations.** This is not my territory which is a position that I have always maintained. I form views based on very limited information already available in public domain.

Example 1 - ICICI Bank

Low on 27Oct08 – INR 282.15
Book Value per share – INR 417.43
Last Dividend 110% = INR 11/share

Other facts:

1. Largest Private Sector Bank in the country, second only to State Bank of India
2. Controls & Owns various subsidiaries like ICICI Prudential Life Insurance – largest private life insurance company in the country, ICICI Lombard General Insurance – One of the largest General Insurance Company in the country. ICICI Prudential Mutual Fund & ICICI Securities and some more, all of them are in leadership position in their own segments.
3. @ INR 282/share you would have been getting this company at 68% of Book Value and all subsidiaries, all branches, network, systems & processes, banking license, staff, brand created over 50 years for FREE!!!

Example 2 - Tata Steel

Low on 27Oct08 – INR 150
Book Value per share – INR 298.78
Last Dividend 155% = INR 15.5/share

Other facts:

1. House of TATAs ...do I need to say more?
2. Lowest cost steel producer in the world
3. @ INR 150/share the company was available for INR 11,000 Crores. The company a couple of days back had declared a *quarterly* profit of INR 1,700 Crores and a *half-yearly* profit of approx 3,276 Crores. Profit for year ending Mar08 was INR 4,687 Crores. In effect, you were getting this company for less than twice its annual profit!!!

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Example 3 - MTNL

Low on 27Oct08 – INR 51.75

Book Value per share – INR 189.22

Last Dividend 40% = INR 4/share

Other facts:

1. 'Sarkari' company
2. Dividend Yield of 7.72%, Price was almost 1/4th of Book Value.
3. At a price of INR 51.75 the company had a market capitalization of INR 3,260 Crores. As per company's balance sheet of 31Mar08, it is a zero debt company and in fact has cash and bank balances (including fixed deposits) of INR 3,369 Crores. That means you were effectively getting the company, brand, land at various prime locations in Delhi & Mumbai, telephone exchanges etc. for FREE!!!

For paucity of time, I'm not researching any more companies

Caution!!!

1. From the lows of 27Oct08 many of these stocks have gone up.
2. I have mentioned only the good things and not the bad things for e.g., ICICI Bank almost lost its brand image of 50 years recently due to some rumour and in financial services business brand means business. Steel prices have been coming down and that will affect Tata Steel apart from the burden of CORUS. MTNL has been reporting lower profits every year for the last 4 years.

In Conclusion

Did it make sense to buy these and many more stocks on that day? I would leave it to you to answer that

How many stocks did this apply to? Many more than what I have listed but NOT all for sure.

How many of my clients bought on that day? Less than 1% and even those who did, bought less than 1% of their total portfolio value.

Will we get days like these again? Maybe, but even if you do, you would have to be a daredevil to invest as all 'experts' would foretell doom. Later, these 'experts' would get paid for their story and you would be more intelligent in hindsight.

Happy Investing!!!

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