

## **Can Indian markets continue to deliver as impressive returns as in 1992-2004?**

Dr. Sanjiv Mehta, July 17, 2004

### **1992-2004-a distinctive phase**

I mark this period as a distinctive one since in 1992 the reforms got initiated and in 2004 for the first time in a very conclusive way it got established that reforms are irreversible in their basic essence. After such an unexpected change of the government and the ruling coalition of such a different hue, important policies continue without any significant change.

### **Indian investment performance 1992-2004**

By any yardstick, Indian investment performance was tremendous. Average return of five most important funds in diversified equity category for the last 11 years was 27% compounded annualized. In other words, 10 lakhs rupees invested there in 1993 would have grown to 1.35 crores now. From the years 2000 to 2003, debt funds have returned more than 20 % again on an annualized compounded basis. Different asset classes have performed exceedingly well at varying times. A good allocation decision was sufficient to multiply the savings manifold.

### **2004 and beyond-A new phase**

We got a whiff of Indian economic growth moving to a higher trajectory with the last year GDP growth figures at 8.2%. With the continuity of 2<sup>nd</sup> generation economic reforms, sustainability of 6.5-8% rate is highly probable. Moreover in the comparative advantage sense, global integration and increasing entrenchment of new technology favour India a great deal.

### **Future Indian investment performance- 2004 and beyond**

There are three themes worth considering:

- a. Current under valuation- on all parameters including P/E ratios, GDP to market capitalization and q factor, Indian market is undervalued.
- b. Demand and Supply- FIIs (foreign institutional investors) are investing in India more and more. This will continue to grow as evidenced by positive recent statements coming from various influential long term fund managers including Mark Mobius, CEO of Franklin Templeton Emerging Markets. Domestic equity investment is also rising as government aligns the assured rates of its saving products to the market rates.
- c. Tax haven & Governmental support-The recent budget abolished the long term capital gains tax completely while decreasing the short term capital gains tax to 10 %. Even the turnover tax is likely to be decreased from the proposed one. Mr. Chidambaram, Finance Minister has reiterated that he will do everything possible to ensure that Indian markets continue to develop strongly. Stock market over the long run is the performance scorecard for the economic policies of a government.

### **View**

All these factors combined together will produce a powerful up trend over the next few years. Therefore Indian markets will continue to deliver impressive returns. However, capital market movements are always volatile, markets go up followed by deep

corrections and long periods of uncertain sideways movement. In the phase 1992-2004 too, there were many periods of uncertainty, but overall the returns were excellent.

### **Mujhe kya mila (what do I get while India shines?)**

The important point is to pay attention to 'mujhe kya mila' factor (campaign line which won Congress the power; while BJP was running the India shining campaign, Congress was targeting the majority with this line). There is no benefit in sitting on the sidelines, participating through wrong investment vehicles or paying unnecessary tax. Therefore proper implementation is important.

### **Implementation-for investor to convert the opportunity into hefty post tax realized returns-to convert 10 lakhs into a much more substantial amount**

- Overriding the volatility/ how not to be thrown by volatility- By following the general principles of investing where portfolio gets divided into three parts, one can do very well.
- When to realize profits/when to EXIT-monitoring the market on various parameters and finding the valuation stage is the key. Presently Indian market is undervalued but important thing is to determine when it reaches full valuation stage and exit.
- Selecting best investment instruments possible- based on previous track record and certain forward looking indicators, one can rank and select best investment vehicles.
- Taxation-Each budget makes certain instruments more attractive than others. For example, the present budget makes portfolio management services more attractive than mutual fund, although presently the discussion is on and the final finance bill can show changes. I will communicate to you all these changes/amendments as soon as those are finalized.

### **CONCLUSION**

Globally, I will rank Indian investments currently as one of the best. With proper implementation, your savings can grow manifold.