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Subject: some signs of stability
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There are two important developments which indicate that the market might be showing some signs of stability:

1 Derivative future contracts on the index are at a lesser discount , although still at a discount.

2 Franklin Prima , one of highly regarded mid cap funds is being reopened on June 19, 2006. Earlier their intention was to reopen in August, but the fund manager made the decision to open it earlier. He is finding lot of value in Indian mid cap space, because of sharp correction.

Here I will like to reproduce an extract from my soon to be published book ' Winning the Wealth Game' -

' When to enter or exit the market is a major question, which confuses and mystifies many participants in the stock market. They rightly feel that it is impossible to determine the lowest or highest points of any cyclical move in the stock market. There is great subjectivity in the markets. Analysts spending all their time in forecasting and allocating tremendous resources are not much wiser. However, the good news is within this complexity, lay the roots of a simple solution for the investor. Spending lots of time and thought on determining precise entry and profit taking levels is futile. On the other hand, some simple monitoring will take care of a major part of the objectives.

The investor should just keep an eye on the valuation ratios for the index as well as individual stocks in his portfolio. There also, if only one ratio has to be looked at, it should be the P/E ratio. Further, if investment is through diversified mutual funds, then one needs to look at valuation ratios for the broad market only, rather than multiple stocks. The index can be monitored very easily while spending minimal time.'

From this perspective, this correction has brought the P/E ratio of various Indian stock indices to attractive levels. However, it is probable that range trading(for example, between 8500 and 10000) might ensue for some time before the market asserts its good fundamentals in a decisive way. One good way will be to divide the total sum to be invested in 3-4 parts and invest periodically in a

systematic way with the first part being invested immediately. To reiterate, principles of investing in stocks apply as always and one of these is a time horizon of 2-3 years in the present Indian market.

Best wishes,
Dr. Sanjiv Mehta

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