

**Date:** Thu, 21 Sep 2006 05:25:10 -0700 (PDT)

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**Subject:** 6th note since May 11, 2006- Indian markets to deliver significantly good returns during the next 2 years

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#### INTRODUCTION

Since May 11, 2006 - the peak for Indian market indices and subsequent market correction, we have sent 5 e-mail notes to our investors giving reasons why the market will bounce back and why investors should not only stay invested but also add to their existing investments. Our last note sent when Sensex was at 9000, described some signs of stabilization in the market.

We are happy that not a single one of our investors sold their investments (and a few actually added), thus contributing to their outstanding returns and our resultant performance.

This is the essence of wealth management - proper asset allocation looking at economic fundamentals, a long-term orientation and getting the most out of a profitable run in a particular asset class. Many investors do fall into the trap of cutting their profits and running their losses.

#### TRIGGER FOR 6th NOTE

An article in Business Today of Sep. 17-24, 2006 captioned 'Don't believe in this bull run- there are reasons why the rally in Indian stocks will not hold'.

The reasons they give are:

1. Rise is only due to 3-4 major stocks like Infosys, Bharti Telecom, Satyam, and Reliance Industries. Rest in 30 stock Sensex are still lagging behind.
2. Current trading volumes have been on the lower side relative to the upmove prior to May 11, 2006
3. Market breadth is negative - out of 303 stocks that constitute the midcap index, 287 are still below the highest value of May 11.
4. Similarly, out of 498 small cap stocks, 459 are still below May 11 value.
5. Indian valuation ratios are expensive as compared to other markets.

#### OUR VIEW - DIAMETRICALLY OPPOSITE FROM THIS MAGAZINE

1. There was a sharp correction but Indian economic fundamentals remained intact. Corporate earnings growth is still strong. In any case it is expected

that after a sharp correction, initially only a few adventurous investors venture out and invest in a few solid stocks. Only after the confidence has built up, the rally becomes broad based. Most retail investors act with trepidation, but gradually participate if fundamentals are good.

2. Corporate India has performed well during the quarter Apr-June, 2006. Sales are up 27 percent and profits 34 percent.

3. US economy is showing signs of a slowdown. With such a slowdown and especially if global imbalance improves gradually, there will be greater weightage accorded to emerging market inflows, especially India. Indian economy is relatively less dependent on exports and domestic consumption is an important component. It will be less affected by a USA slowdown.

4. Indian P/E ratios are higher than Russia or Brazil; but those are commodity aligned economies and more cyclical in nature. Indian economy has far greater diversification and growth is powered by more dynamic industries, better demographics and improving corporate governance.

5. Discount on 2 month futures on Indian indices is now even less than 0.5 %.

#### RECOMMENDATION

Invest more funds in India with a 2-year horizon since our expectation is that of a significant return during this period. Midcaps will outperform and funds with a flexible mandate will consequently do well. Indian currency is also likely to appreciate and it will be worthwhile for NRIs to increase their allocation to India.

We will be very happy to advise you on your total asset allocation, whichever part of the globe you might be in and irrespective of whether we are presently managing only a proportion of your total portfolio.

Best Wishes,  
Dr. Sanjiv Mehta

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