

## You can STILL make money in stock markets

Dr Sanjiv Mehta | August 16, 2007 | 15:03 IST

Lately the market has been very turbulent. In July 2007, during the first three weeks we saw a 6 per cent increase in the [market indices](#) and then a steep fall of 542 points in a day. After a partial recovery it fell by 630 points in a single day again. The main reason cited for this [volatility](#) is the U.S. sub-prime mortgages problem and its potential contagion effect.

### Important issue

Such volatility always raises the issue for future returns. You as an investor must be thinking: is this just a short-term correction or indicating something more serious? Stock market returns are a reflection of a country's economic activity and therefore the important issue to consider is the sustainability of Indian economic growth.

A continuing growth rate of 8-9 per cent will ensure good equity returns.

### Sustainability of growth in India

The reasons supporting a long term Indian growth are still valid. Indian demographic profile with a large percentage of young people is an important factor. Indian companies are now lot more competitive and have utilised money well to improve their capacities, be it in the services sector or the manufacturing sector.

Demand for many goods and services remains persistent and the consequent corporate [profitability](#) is expected to continue to grow at a healthy clip. A greater proportion of Indian savings is channelised into equity markets and is increasingly providing a good support to market levels.

Also while the Indian market has an increasing correlation with global markets, this correlation breaks down at lower market levels. Add to that the infrastructure development, low interest rates and fairly controlled inflation and we can easily conclude that the Indian growth will continue for quite some time and therefore Indian stock market will continue to deliver handsomely.

### Retail investor overriding volatility

While the opportunity is great, to convert it into significant returns the investor has to follow three principles of appropriate time horizon, diversification and [valuation](#). By investing only that part of your money, which is not required for some time, investors can select an exit strategy of her/his own choice and thus use the volatility to her/his advantage.

Diversification reduces the dependence on one sector or stock and the portfolio risk is reduced. Valuation is a good guide for entry and exit levels.

### Changing and expanding market leadership

In the post 1992 reforms period, well established companies like Franklin Templeton and HDFC performed very well. However, the market leadership has changed with Reliance, DSP Merrill Lynch, SBI and Fidelity delivering excellent comparative returns lately. JM Mutual with its new equity team with a good track record

should be watched carefully too.

Another heartening factor has been the introduction of products in various asset classes. □ Some examples of new innovative products include Sundaram Global Fund, DSP Merrill Lynch World Gold Fund, HSBC capital protected equity fund and ICICI Prudential real estate fund.

- [Chat with Dr Sanjiv Mehta on August 17 at 3.30 pm](#)

It is therefore now possible to diversify the portfolio across asset classes (like gold, equity, real estate etc), thus facilitating generation of good returns with minimal risk.

### Recommendation

Retail investor should continue to allocate a signification proportion of her/his long-term savings to Indian equities. Of course, the three principles (appropriate time horizon, diversification and valuation) □ mentioned above remain sacrosanct. NRIs can continue to participate with confidence in the India story with an added advantage of rupee appreciation in the long-term.

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