

## **When the dust settles down- financial earthquake and aftermath**

**Dr Sanjiv Mehta | Oct. 27, 2008 | Sensex@ 8053**

Inevitable question is what action the investor should take at this time of intense turmoil. A long-term investor will be justifiably paranoid that market is just waiting for him to bail out before it starts rebounding. On the other hand, it is becoming increasingly painful as the market keeps on heading lower.

An analogy to earthquake might help in determining a course of action. We are at a stage where buildings are crumbling down and there is state of confusion and panic. Everybody is running helter skelter, there is haze and dust and nobody yet realizes the extent and differentiation of damage.

When the dust settles down, what will people see? It is for sure that no building would have escaped damage; they were all linked. However, some economies would have suffered more while some others slightly less. An important question will be about the comparative and differential future of various economies.

In my note [Sensex, Music & Headphones of June 27, 2008](#), I wrote that Indian economic growth of 7.5% in the face of sub par growth in USA will be noticed. A board comprising of prominent Indian economists on October 27, 2008 forecasted a growth of 7.5% for both 2008-9 and 2009-10 in spite of current global turmoil. I have repeatedly emphasized 'strategic global shift' and the painful nature of such shifts in my numerous previous notes. The current events will perhaps accelerate and make more visible such a shift.

Morgan Stanley in its note of October 13, 2008 echoes the same thoughts. To quote from their report ' we believe the world economy is in a painful transition to becoming Emerging Markets led. Our economics team's forecasts now envisage that 100% of all GDP growth worldwide in 2009 will originate in Emerging Markets. However, the denouement to the structural issues that have built up in developed market financial systems and economies is leading to global deleveraging and reducing demand for Emerging Market assets. Yet, despite the massive undershoot of the last few months, the underlying bull market in Emerging Market equities vs. Developed Markets equities is probably intact. We are upgrading our stance on Emerging Market equities to our maximum overweight of 10% above benchmark.'

If we look at the recent statements of legendary investors, they are all utilizing the current sell off to bolster their positions. Warren Buffet in a widely publicized statement on Oct. 20, 2008 said ' a

simple rule dictates my buying: be fearful when others are greedy and be greedy when others are fearful. And most certainly, fear is now widespread'. Barton Biggs finds the current levels to be very attractive for buying worldwide. He particularly singled out India as an over penalized market in spite of good economic fundamentals.

I always mention three sacrosanct principles of investing in volatile assets. To emphasize again, these are time horizon, diversification and valuation. Current events prove that time horizon is of utmost importance. It helps in giving us the holding power for overriding and withstanding the storm and finding a profitable exit at an opportune time. My recommendation therefore will be to hold on to your existing investments. For fresh lump sum funds, I will advise dividing them into tranches and investing in a systematic way. For NRI investors, allocation to India assumes even a greater importance and the current currency levels are favourable.

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