

Indian Nuclear Deal & Cautious Optimism about Indian Market

Dr. Sanjiv Mehta | Sep. 12, 2008 | Sensex @ 14250

Indian markets went up by 600 points when a major hurdle of seeking waiver from Nuclear Suppliers Group (NSG) was crossed. Indian Nuclear Deal has been debated tremendously but the overall view is that strategically it will be beneficial for India in numerous ways. Apart from achieving higher energy independence and being able to sustain rapid economic growth, India will have access to important technologies in diverse areas including pharmaceuticals and space. Consequently, it will be able to leverage its existing advantages of favourable demographics and skilled workforce even more effectively.

From a capital markets perspective, this development has again focussed attention on the positive long term Indian story rather than short-term negatives and the present correction. There are some nascent signs that a cautious optimism about the Indian market is emerging. For example, USA market on Sep. 9, 2008 took a hit of almost 3 % while the Indian market as expected opened lower on this major global cue but recovered during the day. Interestingly, midcaps and small caps were in the positive territory. Derivative clues in the shape of Nifty Futures are at a premium for all 3 months. Although the market can be range trading for some time with levels lower than current levels quite possible, a significant upmove from this base could emerge sooner than expected.

My view as discussed and analyzed in my article [Sensex, Music and Headphones](#) of June 27, 2008 is that the market decoupling will eventually take place in the medium term although nobody can predict the exact timing. My recommendation will be to initiate, maintain and enhance your allocation to Indian equities with a five-year perspective of healthy returns and without trying to find the lowest point of the current correction. For NRIs, it becomes a nice entry point with Indian Rupee showing a significant correction in its long-term uptrend against USD.

Three principles of appropriate time horizon, valuation and diversification remain sacrosanct.

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