Opportunities Galore in Market, it is Time to Nibble into Stocks

Expert Take

Aruna Giri N
CEO & MD
TrueLine Holdings

Isn't it amazing that when it is raining gold out there on the "street", gold price is running on steroid? As any shrewd investor knows, the one that is raining in Dalal Street is worth more than its physical counter-part — not immediately, not over the next weeks and months, but over time.

Fear is widespread now and has gripped even seasoned investors. August has been terrible for global markets. Recessionary fears across the Atlantic, deteriorating debt problems in the Euro region, and political brinkmanship that triggered US downgrade, have all cost the global investors dearly.

India is no island to be insulated from this financial tsunami. There is a "buyers' strike" on Dalal Street. Even a small sale can trigger a big fall in stock prices, as we witnessed last week. A fall in stock prices is not so much because of selling (of course, with few exceptions), but more because of a lack of buying. Market participants genuinely fear that there are some portending signs that signal a crash like the one witnessed in 2008.

Going back in time, the PE multiple of the Sensex (price-earning) contracted sharply to the 12.8 level (trailing basis) at the peak of the 2008 -09 crisis. The fear now is that the Sensex, currently trading at 18 PE (trailing), could meet a similar fate again. Is the market's fear justified or is it a once-bitten-twice-shy story?

There are certain key fundamental differences between the two periods. First and foremost, in 2008, the markets were pricing in a prolonged 'global depression', while now the market is concerned more about a prolonged slow growth (double dip in the worst case). Secondly, banks on both sides of the Atlantic are more capitalised and have undergone stress tests and are much more prepared for a crisis. Crisis seldom happens when you are prepared for one. More importantly, in the Indian context, markets (the broader market) have spent over 10 months in the bear territory and, hence, it is technically light with no major long positions in F&O and near-zero retail participation. Stocks, in general, are on a stronger ground, unlike on the eve of the 2008 crash.

What the foregoing analysis tells us is that while the Indian market is justified in being edgy given the global uncertainties, the fear of a repeat of 2008 is unwarranted. But certain stocks in this market mayhem have been battered to such an extent to warrant attention from the long-term stock pickers, as the market is pricing in a doomsday scenario for those stocks. There are many such opportunities that can give fabulous returns over time for value investors. Investors who have a long-term horizon (two to three years) can start nibbling in this market in stock-specific opportunities in a phased manner. This approach can yield huge dividends over time.

Let me explain one such opportunity in greater detail. There comes a time in life (not too often) when you find a dollar bill gets thrown at 90 cents, yet, ironically, there will be only a few takers. When fear grips the markets, crazy things do happen. It can go so far to even get you liquid cash at substantial discount. When the prevailing primary concern is "flight-to-safety", this is bizarre. Yes, in this panic-stricken market, there are many stock-specific opportunities where the market-cap is at significant discount to even the companies' liquid cash holdings. One wonders why there is no stampede at the street when it is raining gold. As someone wise remarked, maybe everyone is waiting for the stampede to confirm the worthiness of such an opportunity.