PERSPECTIVE

SEPTEMBER 2020

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As discussed in June ending Perspective that **final explosive expansion of the bubble** can be immensely profitable and can **take Sensex to 38500**. Market **once again showed respect to our levels** and followed synchronized global rally.

Current market scenario: Our thinking about market at this juncture has not changed much and **we still believe in our views as stated in last quarter perspective.** There is high volatility because of two counter forces at play**. On the one hand, there is a medical, economic and financial crisis** which is threatening growth. **On the other hand, central banks are printing money,** cutting interest rates and increasing fiscal support to ensure that growth don't fall much**. Few regular headlines in last 3 months were: 1. Equities are UP as economic recovery starts. 2. Equities are UP as economic recovery pauses and hopes of further stimulus increases.**

Market participants used to think **in 1980: Equities are worthless because interest rates are going to stay 20% forever and in 2020: Equities are worth infinity because interest rates are going to stay 0% forever**...Our view **is if zero percent interest rate had no negatives, why was it not pursued from 1929? Why was it pursued only from 2008?** Extreme stimulus has worked well on the way in but **exiting will prove harder** to do & for that the **first signs of rising inflation will be a test.**

Based on current market scenario, what is your forecasting numbers?
Over the last three years, the Nifty has remained in the 11,000 range swinging like a pendulum between optimism and pessimism. **Sensex at 38500 is merely a number** and one can't depict anything without putting Valuation math behind that. **We can't predict** but **we can share our internal valuation frameworks & gives guidance based on the past. We work on guestimates** and calculation shows **best case scenario after inculcating positive outcomes from geo-politics front** could take Sensex to new highs before this financial year ending **(Before 2021 April) at 40500 – 41500**.**(Gradually underweight @ Equity)**

A **bubble is not a bubble till it bursts**& the biggest risk to the entire market will be that if **central banks of the Western world lose their grip at the battles they are fighting**, than markets will correct substantially and **fundamental valuation says fair Sensex level** should be **32500-33500.(Gradually Overweight @ Equity)**

What should be action plan for investor?

There are **3 approaches to generate return** from Equity markets:

1) Trying to be **"more right"** : **Highest**(Return + risk of capital drawdown)
2) Trying to be **"All in the market"** : 100 % Equity : **Higher**(Return + risk of drawdown)
3) Trying to be **"less wrong"** :**Above average/Moderate**(Return + risk of drawdown)

1st approach: Strong sectoral views / Concentration / Timing all in (100 % Eq) & all out (0% Eq)
2nd approach: Time in market (index/diversified fund) for 20 year+
3rd approach: Diversification through Asset Allocation + Rebalancing

Due to highly predictive element in play, **we discard first approach**. **Second approach should be followed**, but **people behave very differently in real life due to inherent volatility of market**. So we strongly believe that **only way to guard from above two risks is by following asset allocation techniques;** having exposure to debt, gold and equity **+ following rebalancing process with discipline.**

Our internal Model asset allocation (Valuation-based framework) **currently shows 55-60% max towards Equity for Aggressive investor. Ideal/prudent allocation** at this elevated valuation should be **35-40%**. Remember **wealth is made by waiting and not by chasing.**

Summing it up: We want to reiterate that **fear of missing opportunity will not hurt as much as real loss**. If I cannot achieve the return I desire, I would **not increase the risk but decrease expectation**. My experience tells that investor seek downside protection after market falls & hate to act after substantial market rally especially when underlying value has also become expensive. The central rule in life& investing is that **it is much better to panic early than late. Asset allocation strategy will not maximize return** but **will minimize risk** and smoothens out investment journey. **Diversification is simply accepting – "Never a Hero, Never a Zero".**