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HOW TO RIDE OUT A ROUGH MARKET

If you are a retail investor, take the SIP route or stagger your direct investments, say experts

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(File photo.) The tally of demat accounts crossed the milestone of 100 million last month from just 40 million ahead of the pandemic in March 2020. MINT

Santosh Laxman Devale (41), a track maintainer with the Indian Railways, drew a salary of ₹18,000 a month in 2016. He wanted to save up for his two kids and part-pay his home loan. Investing in mutual funds through the systematic investment plan (SIP) route was an option.

He started investing ₹1,000 a month in an SBI mutual fund equity scheme. Although he withdrew part of the corpus intermittently, Devale could soon sense how regular, staggered investments compounded returns. By 2018, he became confident enough to invest another ₹2,000 every month in two HDFC mutual fund equity schemes with a lock-in of five years.

"I can't touch the corpus for five years at HDFC MF, but am sure the returns will be good, given my experience with SBI MF, where the funds left me with ₹10,000 over my investment of ₹60,000 (in five years)," he said.

Devale's optimism is not uncommon these days. He is part of a growing breed of small retail investors—which includes the likes of taxi drivers and homemakers—who believe they can build wealth by latching onto the growth story of India's stock markets. While Devale has invested indirectly through mutual funds, there are millions of newbies that have opted to participate directly.

SIP flows hit a record high of ₹12,693 crore in August, up from ₹9,923 crore a year ago. The tally of demat accounts, one that helps investors hold shares in an electronic format, crossed the milestone of 100 million last month from just 40 million ahead of the pandemic in March 2020.

All investors now face a tricky question—should they buy, sell, or wait for a dip to invest more? Even money managers, with their years of experience and access to research, are confounded. Well, the markets have been, sort of, wild. As of now, the Indian stock market has outperformed world markets. However, this flies in the face of mounting recessionary fears in the US, and concerns over a widening current account deficit (CAD) and weaker rupee back home.

Here are the numbers.

Between October 2021 and June 2022, the bellwether Nifty plummeted 18% to 15,183.4 from its record high of 18,604.45. During this period, foreign institutional investors (FII) sold shares worth a whopping ₹2.17 trillion, which was lapped up by domestic institutional investors (DII), including mutual funds, who invested ₹3 trillion. From the lows seen in mid-June, the market then rallied back 18.5% to a high of 17,992.2 in August as investors and traders began discounting rate hikes in the US and retail inflation back home declined from a high of 7.79% in April to 6.71% in July on falling Brent and edible oil prices.

Navigating such an uncertain market isn't easy. *Mint* spoke to experts to draw up a guide for the retail investor. In short, most market mavens vouch for SIP plans through mutual funds and staggered investments by direct participants. They also warn that uninformed retail investors should steer clear of derivatives trading which can expose them to unlimited losses. Options trading (where one can buy or sell stocks at a specific price within a specific date) has caught the fancy of retail investors with derivative volumes on the National Stock Exchange (NSE) set to hit record highs in the current fiscal.

THE SIP WAY

SIP is a plan by mutual funds allowing you to invest a fixed sum at fixed intervals, say, as little as ₹1,000 every month. The plan has gained traction among Indian investors as it helps in rupee cost averaging and compounding, besides allowing investments in a disciplined manner without the worry of timing and volatility.

Moreover, selecting the right stocks or ideal schemes vests with the chief investment officers of different fund houses—they have the exposure to several market cycles unlike a newbie investor who may have taken a penchant for the markets only since 2020, or during the lockdown months.

In rupee cost averaging, an investor automatically buys fewer mutual fund units when the scheme's net asset value (NAV)—market value of securities held by the scheme—is high and more units when the NAV is lower. While this doesn't in any way assure an investor of profit, it ensures regular and disciplined investing, that is buying at lows and preventing over investment during times of euphoria.

During October 2021-June 2022, SIP investments averaged ₹11,615 crore each month, up from a monthly average of ₹10,380 crore in 2021-22 and ₹8,006 crore in 2020-21. These investments paid off with the market bouncing off the June lows, illustrating the impact of cost averaging.

For instance, one-year returns through August of the top five equity schemes ranged between 19.04% and 25.49%. From a longer perspective, too, investing in mutual funds either through SIP or lump sum has generated robust returns. The top five equity schemes have generated annualized returns of between 19.28% and 21.87% over a five-year period through August 2022.

"SIP should be the preferred route for the retail investor amid the prevailing uncertainty over Fed Funds Rate hikes and evolving geopolitical situation in Europe and the Taiwan Strait," said Nilesh Shah, managing director and chief executive officer (CEO), Kotak Mahindra Asset Management Co. "Our markets have risen significantly from the lows and SIPs will ensure a disciplined investing approach as the market nears its record high."

The reach of SIP investing is spreading among the common man through social media platforms like Twitter and Facebook and media campaigns like Mutual Funds *Sahi Hai* by the Association of Mutual Funds in India, an industry body.

"I think the trend of SIP will keep penetrating among the salaried masses as the small-ticket sizes and steady equity returns make such a plan more attractive," said Jignesh Desai, co-founder of NJ India Invest, the country's largest SIP distributor. "We have drivers of a taxi agency in Mumbai using the SIP route to equity investing."

> If the fears on US rate hikes materialize, FII flows into India, which turned positive in July-August following months of relentless outflows, could reverse yet again.

Here's an indication of the popularity of the plan. NJ India's average ticket size stands at ₹3,000 per month against the industry average of ₹2,100.

Tarun Birani, founder and CEO, TBNG Capital Advisors, batting for SIPs, suggests that 10-15% of investable corpus should nonetheless be kept as cash for the next six-eight months—to add on when the market dips.

STAGGER IT

Like we mentioned earlier, demat accounts have gone through the roof. The rise in demat accounts coincides with Nifty currently trading at price to earnings multiple of 21.29—investors are willing to pay ₹21.29 for every rupee of profit earned by the 50 constituents of the benchmark. A ratio above 22 is considered overvalued and one less than 14 is undervalued.

With the market at the overvaluation threshold and mounting concerns that higher than anticipated rate hikes in the US could push it into a recession, volatility is slated to increase in Indian markets. This has prompted many analysts to suggest a staggered approach to investments by direct participants versus lump sum ones.

If the fears on US rate hikes materialize, FII flows into India, which turned positive in July-August following nine months of relentless outflows, could reverse yet again, pressuring the domestic markets.

"It's best to book profits and deploy just 25% of cash in equities at this stage," said Rajesh Palviya, vice president (research) at Axis Securities. He expects the market to dip before cruising to a new high. "If we test the 200-day simple moving average (SMA) on Nifty, we recommend that investors should deploy the remaining 75%."

A 200 SMA is represented as a line on a chart that depicts the average Nifty closing price over the past 200 days or 40 weeks. If a stock or an index trades consistently above its 200 SMA, it's considered to be in an upward trending market and if it trades consistently below its 200 SMA, it's in a downtrend.

Palviya cited that the Nifty's 200 SMA was at 16,966, almost 5% below the current 17,833 level. Similarly, the Nifty Midcap 100, which closed at 32,036 on 9 September, was 9.3% higher from its 200 SMA of 29,300. This underscores the stellar market rally from June lows.

"After such a rally, caution is key although structurally we are in a bullish market," Palviya added.

Technical experts like Rohit Srivastava, founder of IndiaCharts, said that prudence should precede euphoria as the Nifty still hasn't been able to break past its previous highs of January and April 2022. The Nifty recorded a high of 18,604.45 on 19 October last year before correcting. The index then rose to 18,350.95 on 18 January this year and 18,114.65 on 4 April, before plunging to 15,183.4 on 17 June. From here on, it rose to 17,992.2 on 19 August, before correcting to 17,166.2 on 29 August. It then rallied to a high of 17,925.95 on 9 September, before closing lower at 17,833.35.

However, foreign portfolio investors aren't deterred. They purchased ₹51,204 crore worth of Indian shares in August—the highest monthly net purchase since December 2020—after selling ₹2.56 trillion shares in nine months through June.

"FIIs have the feeling of missing out on the rally from the June low," said SK Joshi, director, Khambatta Securities. "They have been buying in the cash market even as DIIs are booking profits."

Indeed, DIIs who purchased shares worth ₹3.12 trillion from October last year through July of this year, sold shares worth ₹7,069 crore in August, booking profits after absorbing FII sales in a falling market. This DII counteraction to FIIs has enabled Indian markets to outperform developed and emerging market peers.

India's outperformance is reinforced by MSCI India Index generating returns of 6.3% in the three months through 31 August while MSCI Emerging Markets Index gave a negative return of 6.29% over the same period, implying India's outperformance by a staggering 12.6%.

"With such outperformance, it's really tough to sit at the sidelines," said the CEO of a leading fund house on condition of anonymity. "The market wisdom can't be questioned and if we keep rising despite looming global uncertainty, how do we justify sitting out? So, we are suggesting a staggered approach—SIP in the case of mutual fund investors and staggered investments for lump sum mutual fund investors and demat account holders," the executive added.

InCred Wealth's head of investment Yogesh Kalwani suggests that investors should book gains on part of their portfolios and hold up to 20% in cash for re-entry over the next few months.

mint SHORT STORY

WHAT

Over the past year, the Indian stock market has been volatile. However, it has outperformed world markets—this flies in the face of mounting recessionary fears in the US.

BUT

All investors now face a tricky question—should they buy, sell, or wait for a dip to invest more? Even money managers, with their years of experience and access to research, are confounded.

NOW

Market experts say uninformed retail investors should steer clear of derivatives trading which can expose them to unlimited losses. They also advise a disciplined investing approach.

SARVESH KUMAR SHARMA/MINT

F&O: STRICT NO-NO

Volumes on the derivatives segment of the NSE are on course to hit a record this fiscal year. Between April and 9 September, total derivatives turnover touched ₹12,620.9 trillion compared with ₹16,952 trillion in 2021-22.

> Technical experts advise prudence over euphoria as the Nifty still hasn't been able to break past its previous highs of January and April 2022.

The rising retail interest in the derivatives segment in the current fiscal comes on the back of falling cash segment volumes. While average daily turnover (ADT) in the cash market rose 24% sequentially to ₹57,953 crore in August, it was down 8% from a year ago. Similarly, in July this year, ADT grew 4.5% sequentially but fell 26% from a year ago.

Kotak AMC's Nilesh Shah said that many retail investors have begun dabbling in index and stock options without understanding the risks or taking informed decisions. "Many a time, they write (sell) options on tips which is fraught with risk as the losses could be unlimited," said Shah.

"Option premiums tend to rise as volatility rises and falls when uncertainty abates. Markets fell around 18% between high and low during October 2021 to June 2022 and rose by a similar magnitude through August. Such wild price swings cause rapid changes to option pricing," Alok Churiwala, MD, Churiwala Securities, explained. "Buying without appreciating the impact of factors like implied volatility and time decay on option prices can be deadly for small investors," he added.

'Implied volatility' is a forecast of future price fluctuations while 'time decay' refers to the rate of decline in option value with the passage of time.

The futures and options (F&O) segment is dominated by institutional players like FIIs, proprietary traders, and high net-worth individuals who have quicker access to relevant information. Also, sophisticated algorithms that activate rapid fire trading strategies to benefit from sharp prices swings. The small retail investor has no such support.

Churiwala's advice: "Better stay away from this animal".