

Corrections – Opportunities to buy!

“Raat bhar ka hai mehman andhera - kiske roke ruka hai savera; It is always darkest before dawn, we came out of 2008, we will come out of 2020 too” - Nilesh Shah, Kotak MF

Indian equity markets have witnessed a carnage over the last one month (Nifty down ~35% from its 52-week high of 12,362) in tandem with global equity markets due to headwinds from the Covid-19 outbreak across multiple countries. The fall across the world is as sharp as 2008 which was a financial crisis. Mid and small caps that were doing well at the beginning of the year also have given up all gains.

We do understand these are difficult times for everyone in each sector. Do think about your near term liquidity needs and for any questions please call us. However, we note that such significant corrections have opened up equally significant investment opportunities in the past. This might very well be one of them.

Abnormal scenarios such as these, may not last for long, but our reactions to such scenarios can definitely leave a lasting impact on our portfolios. In such trying times, we outline here, three options that retail investors can explore.

Option 1- Liquidate 100 percent

The recent meltdown has seen all mutual funds (with absolutely no exceptions) coming under pressure. Very rarely, have we seen equity mutual funds falling by these magnitudes in such a short period. If the past is any indicator, the economy and hence the market can take some time to recover from here due to the damage of the lockdown. The time period for the same can be very difficult to predict. In such times, some investors might want to liquidate their portfolio completely or partially, watch the market from outside and re-enter when the dust settles down.

Option 2- No action – Show Patience

This is for those who are confused and not sure which strategy one should adopt. Usually, this is one of the best strategies for those who have long term views on equity but do not have extra money to add at these times or are not sure what to do now when the atmosphere is muddled. Under this strategy, neither you buy nor you sell but wait for the dust to settle down to take the next course of action.

Option 3- Go against the tide and put more money

Since markets are falling despite strong financials, some investors might see this as an opportunity to accumulate units in good quality funds at lower NAVs. But instead of buying everything at one go, we can stagger the investment (like we do by weekly STPs). Many will term this opportunity as once in a decade where valuations are attractive, and quantity that you wish to buy is available in abundance and at much cheaper value. One year down the line, you may be proud of your strategy. Of course, the basic assumption is that you are willing to bet on the equity funds for the long term and stay invested patiently.

We have taken case study from past for similar market crash in 2008/2009 (more severe than current one). **The table below re-iterates that strategy 1 (total liquidation) is definitely not recommended. Strategy 3 is the best in these times if it is possible for you.**

HDFC MidCap Opp Fund		Option 1 Liquidate 100 percent			Option 2 No action – Show Patience			Option 3 Go against the tide & add more funds		
Date	NAV		Valuations	Units	Invested	Valuations	Units	Invested	Valuations	Units
09-Jul-07	10.14	100000	100000	9862	100000	100000	9862	100000	100000	9862
09-Jul-08	8.49	0	83728	9862	0	83728	9862	100000	183728	21641

09-Jul-09	8.62	0	85010	9862	0	85010	9862	100000	286541	33241
09-Jul-10	14.57				0	143688	9862	0	484328	33241
08-Jul-11	16.53				0	163018	9862	0	549481	33241
09-Jul-12	16.38				0	161538	9862	0	544495	33241
09-Jul-13	17.41				0	171696	9862	0	578733	33241
09-Jul-14	28.54				0	281460	9862	0	948710	33241
09-Jul-15	37.41				0	368925	9862	0	1243528	33241
08-Jul-16	40.77				0	402022	9862	0	1355087	33241
07-Jul-17	52.78				0	520552	9862	0	1754615	33241
09-Jul-18	56.21				0	554339	9862	0	1868500	33241
		1L reduced to 85k			1L grown to 5.54L (CAGR 17%)			3L grown to 18.68L (CAGR 20%)		

This panic selling across global markets is giving an excellent opportunity to accumulate units at cheaper levels. We believe those who can invest in a systematic way will be able to recover from this carnage relatively faster.