*Our Heritage*

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

# Capital Market Trends in Equity and mutual Funds

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A man must be big enough to admit his mistakes,
smart enough to profit from them, and strong enough to correct them.
— John C. Maxwell

**ABSTRACT**

ItRepresents an overview of Stock Exchange that links capital markets Trends and Mutual Funds market. These studies relate some elements of Investors Sentiments and NIFTY movements. Five main points are highlighted. First, Risk taking ability for equity investment is improving. Second, SIPs in mutual funds can address both these problems of timing and pricing. Third, On 29th October 2019, about 25 companies of Nifty50 indices declared Q2 results. Fourth,The recent developments are very positive for Equity markets and MF.Fifth,Investment and Funds Allocations are according to Age, Risk and Return Factors.

**Keywords:**Investment, SIP, NIFTY, Equity,Mutual Funds.

**Introduction**

In India, Government's intention to correct the economic situation with tax and stimulus measures is positive. And the statement to provide further fiscal stimulus in the future as per the need of the economy is lifting the sentiment of the market. Risk taking ability for equity investment is improving in the market with optimism over recovery in the economy led by stimulus, festive demand, good monsoon and lower interest rate. The start to Q2 result for the broad market has been mixed while for banking sector it has been marginally better led by base effect and reduction in provisioning. In India, stocks have out-performed other asset classes like bank deposits, gold and small savings by an impressive margin during the last 40 years, The Sensex, which was 100 in 1979, is now around 39000, multiplying 390 times in 40



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ISSN: 0474-9030

Vol-68-Issue-1-January-2020

years. This translates into an average annual return of 16 percent excluding dividend. This return is substantially superior to returns from other asset classes like bank fixed deposits (7 percent), small savings (slightly above 9 percent) and gold (10 percent), during this period. In spite of this impressive wealth creation through the stock market, the fact remains that only a minority of investors have benefitted from this. Large numbers of retail investors haven't benefitted mainly because of two behavioral traits associated with retail investors. These are: one, wrong timing and two, wrong pricing.

**Objectives and Relevance**

- To study the recent trends in Equity Market.
- To study the recent trends in Mutual Funds.
- To study the Investors market sentiments.
- To study the NIFTY movements at Current Market.

**Research and Methodology**

This study is based on secondary data. Data is collected from News Papers, Journals and different website relating to Stock and Capital Markets.News letters of different Mutual Fund Agencies and Stock Brokers.

**Study and Analysis**

Usually, retail investors enter the market at its peak. They jump on to the bull bandwagon hearing news of investors having made a fortune. The FOMO (Fear Of Missing Out) factor drives their entry into the market. Also, they invest predominantly in low-priced low-grade stocks. When the bull market ends and the inevitable correction begins, they panic and exit from the market. This wrong timing is a prescription for financial disaster. Very common behavioral trait of retail investors is wrong pricing; that is, in the bull market they buy more when the price rises and in the bear market, they buy less when the price falls. This is, unfortunately, the exact opposite of sound investment strategy.

SIPs in mutual funds can address both these problems of timing and pricing. During market corrections, when price comes down, SIPs enable buying more units at the same price. This 'rupee cost averaging' together with the power of compounding in the long run facilitates steady wealth creation. SIPs in mutual funds also address the problem of retail investor bias towards low-priced inferior quality stocks.

On 29th October 2019, about 25 companies of Nifty50 indices declared Q2 results. The outcome is encouraging with a PAT growth of 20% on a YoY basis compared to expectation



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ISSN: 0474-9030

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of ~11.3% for the same stocks. For broad indices like Nifty500, 127 stocks have declared results, a similar traction is visible with 18.4% growth in consolidated PAT which is 6% on a QoQ basis. This is led by cut in corporate tax, better performance from sectors like Banking, Cement and FMCG. However, weak performance is seen from Auto and IT sector. But we are seeing positive signs in auto sector with retail car sales having gained some traction in the ongoing festive season after six continuous months of declining sales. As per media reports, sales have risen by 5% to 7% during Navratri, Dussehra and Dhanteras from the last year's numbers for the same festive period, this will be visible in next quarter result. Two-wheeler sales haven't improved on a YoY basis but on a month on month basis.

The important points to be noted that the better numbers from the Banking sector, providing a hope that India's finance segment NPA problem is normal. Q2 result for banking sector has been better due to lower base of last year, reduction in provision and positive vibes over NPA resolution. The outlook for their future is also improving led by improvement in asset quality, increase in liquidity and cut in operational cost. The negative is that slippage is still happening in specific stocks due to exposure to some stressed NBFCs and pending resolutions. But valuation of the banking sector based on long-term trend is attractive and earnings trajectory is improving, which is giving a good chance for banking sector to do well and outperform the market in the future.

The reduction in corporate tax rates and the slew of reforms announced by the government has certainly boosted the sentiments. But the biggest drag on the market is the poor corporate earnings. Corporate earnings have been growing only at around 5 percent during the last 5 years against the average of 15 percent since liberalization

In India, stocks have out-performed other asset classes like bank deposits, gold and small savings by an impressive margin during the last 40 years, The Sensex, which was 100 in 1979, is now around 39000, multiplying 390 times in 40 years. This translates into an average annual return of 16 percent excluding dividend. This return is substantially superior to returns from other asset classes like bank fixed deposits (7 percent), small savings (slightly above 9 percent) and gold (10 percent), during this period. In spite of this impressive wealth creation through the stock market, the fact remains that only a minority of investors have benefitted from this. Large numbers of retail investors haven't benefitted mainly because of two behavioral traits associated with retail investors. These are: one, wrong timing and two, wrong pricing.



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**MSCI equity performance in 2019**

| Country | MSCI Index % gain / loss |
|---|---|
| US | 17.3 |
| Japan | 6.7 |
| Germany | 9.9 |
| France | 16.8 |
| UK | 5.9 |
| Italy | 17.5 |
| Sweden | 14.5 |
| Brazil | 12.9 |
| China | 6 |
| India | 0.6 |
| Russia | 14.8 |
| Taiwan | 15.5 |
| South Korea | 5.2 |
| Singapore | 4.3 |
| Malaysia | -7.8 |
| Indonesia | -4.6 |
| Pakistan | -2.9 |

**(Source:Times of India Data Bank)**

## Investment and Funds Allocation

Majority of Investors mistakenly believe that stock choices determine success. In reality, one of the most important aspects of investing, besides starting early is asset allocation. This is because when you decide to invest your hard-earned money, you naturally want to minimize your risks and maximize your potential returns. And this makes it important that your investments are allocated over a variety of asset classes such as equities, fixed income, and cash; because each asset class performs differently over time due to its unique balance of risk and reward.

The process of determining which mix of assets to hold in your portfolio can be so complicated that we often jump at thumb rules. “100-minus-age” rule is a simple way to determine asset allocation. The rule says you should take 100 and subtract your age: i.e. at 40



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ISSN: 0474-9030

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you would have a 60% allocation to stocks; by age 65, you would have reduced your allocation to stocks to 35%. This is referred to as a "declining equity glide path" where every few years you decrease your allocation to stocks thus reducing the volatility and risk level of your portfolio.

Salaried individuals have a regular stream of income and can opt for investment solutions that have short-term risks but give higher returns in the long term. But self-employed professionals such as lawyers, artists, architects and consultants etc. have fluctuating income as a result of the type of work that they do. This will have a significant impact on their financial situation and how much money will be available to save toward financial goals. The equity market may trade with a mixed bias in the short-term. We expect the broad market to maintain its positive bias in the long-term, and 11,200 to 11,500 to hold a strong support for Nifty 50 in the short-term.

**The recent developments are very positive for Equity markets and MF**

We had three key reasons impacting the global economy and market: US-China trade talks, Brexit and geo-political issues. We are hearing positive developments regarding trade wars and deal with UK and EU. World economy was slowing down due to concerns over trade and new investment. This hangover is going to reduce as a final deal is reached between the parties. FII's view will change from negative to positive on emerging markets and inflows will grow better.

**Central Tendency** is a statistical measure that identifies a figure that represents the entire set of data. Mean, median and mode are the three such measures, with "average", being the most widely used one, by beginners and experts alike.

**Narrow rally lifts Nifty above 11000**

Nifty conquered 11000 again on 6$^{th}$ February, breaking a five month range. The resistance at 10800 has been broken by this rally, led by huge delivery-based buying in a few stocks. It is important to appreciate the fact that this is a very narrow rally led by a few stocks. Presently six stocks – HDFC Bank, HDFC, Reliance, TCS, Infosys and ICICI – account for around 50 percent weightage in Nifty. If we add ITC and Kotak Bank to this list, the weightage would be 60.7 percent. Nifty's impressive performance is due to the strength of these stocks

**RBI turns pro-growth and cuts rates**

While the change in RBI's monetary stance from calibrated tightening to neutral was on expected lines, the rate cut took some sections of the market by surprise. The decision to cut



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ISSN: 0474-9030

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the policy rates is a clear indication that the central bank is now giving lot of importance to growth. Though the stance is neutral, the tone of the policy is distinctly dovish. One more rate cut is possible in CY 2019; of course, it will be data dependent. This accommodative monetary stance augurs well for the markets.

Domestic economy is on a path of revival, this is after last year's trough. India's GDP is likely to touch a bottom of 7% in FY19. This slowdown was due to lower spending by government on account of tightened revenue collection after numerous reforms which led to managing its deficit situation. At the same time private spending was low due to NPA problem and slowdown in world economy. On the other hand, auto sector is continuously witnessing sluggish demand in the last 2 quarters, which is expected to continue for a few more quarters leading to production cut by major OEMs due to higher inventory and lower liquidity. However, GDP growth is likely to improve to 7% in FY20 in expectation of restart of government spending post national election and stability over fiscal deficit.The NPA problem has reduced from 11.5% in March 2018 to 10.8% in September 2018, and is expected to further decline to 10.3% in March 2019.

During the last one month India is outperforming the emerging market by 9.1%, the rally was broad based led by realty, power, banks. However, the performance of IT and Auto index were subdued due to strong rupee and insipid demand. The focus has shifted to mid & small caps, where valuation looks attractive.

It is observed that for the past few quarters midcap and small cap stocks have been struggling to generate alpha for its investors. In such scenario, what investment strategies and processes you follow to manage your portfolio?

Mid-Caps and Small Caps have undergone a meaningful correction over the last 12 months. The NIFTY Mid Cap 100 Index and NIFTY Small Cap 100 Index have declined by 7% and 18% respectively over the last 1 year whereas the NIFTY 50 Index is up 11.5% (As of 20$^{th}$ May 2019). Hence, both the relative and absolute valuations of mid and small caps have corrected and normalized to a significant extent.

**The Ideal behaviours of investors in uncertainties**

Investors, more often than not, expect their investment journey to be a smooth ride and panic at times of adversity and bad news. Market timing is fraught with risk. Changes can appear suddenly owing to various factors, making the risk of misjudgement significant. Investors looking for long term wealth creation through equities could ideally opt for SIPs (Systematic

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ISSN: 0474-9030

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Investment Plans) in Equity oriented Mutual Funds to ensure disciplined investing and benefit from rupee cost averaging. In addition, during periods of market adversity and material corrections, investors could look to increase allocation to equities even via lump sum so long as they have a tolerance for volatility and a long term outlook.

But, if all investors believed that markets were unpredictable, then it is highly likely that the stock prices will display patterns. Now we know that patterns are recognizable, and recognisability reduces the unpredictability of stock markets. Hence, if investors are consistently expecting unpredictability, then the markets are likely to become more and more predictable. In other words, inconsistency in investor expectations is the key to markets staying truly unpredictable. Now, this has become a circular argument. But, this indeterminacy is not a unique problem. In philosophy, if one sets out to understand the meaning of things, by following the trail of words, it is likely that he ends up where he began.

**Conclusion**

However, we are not interested in stock markets' philosophy, as much as we are interested in funds appriciations. How can we do that without attempting to understand where exactly the unpredictability resides. Is it stock market, or is it investor expectation.

Intotal Investors are very careful and cautiousfor their Funds and Investments. Market movement shuld be followed Trends must be understood and also Positive movement should be made Fruitful.

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