

Learn with DNA...

Stock market rules

"Kya lagta hai?" is a common question that stock market investors in India, seem to ask each other or anyone who they feel remotely qualifies to be called an 'expert'. And on the basis of the answer to this simple question investments are made. The problem with this approach is that if an investor invests in a stock on someone else's tip, he must also depend on the other guy while making a decision to exit it.

Very few investors involve themselves in getting the basic information regarding a company while making a decision to invest in its stock. As Michael D Sheimo writes in the book, Stock Market Rules - 50 of the Most Widely Held Investment Axioms, Explained, Examined and Exposed, "Getting the basic information before the investment is made can do absolute wonders for saving the investor money. A sudden price increase should never be the only reason to buy a stock. An increase in either price or volume might call your attention to a particular company, but also get the background on what's happening". But investors most of the times do not concern themselves with getting involved with the detail as it can be a time taking process which involves a lot of hard work.

As Sheimo writes, "Asking why and digging deeper for information is an inconvenience because it calls for analysis, thought and the formation of a conclusion. These activities take time and energy, and they can often lead to confusion and frustration. To avoid these problems, we mainly depend on the wisdom of others or adopt a shoot-from-the-hip approach to investing." And this approach doesn't always work. After having bought a stock, if its price falls, it isn't really a pleasant experience.

"Buying a car, a computer or a new television, only to see it on sale the following week, can be a big source of irritation. Of course, the same holds true for stocks. To pay \$52 a share one day, then to hear some negative news and see a price at \$42 the next week, is not a pleasant experience," writes Sheimo. And this is where research can have a role to play. "If the investor's research and selection are valid, the price will probably recover and move to new highs. But the price damage on the way down can be difficult to endure."

Given this analysing a company is of extreme importance. As Sheimo writes, "There are multitudinous ways to analyse companies and their common stock, but only one thing is important to the investor: an increase in price that is higher and faster than secure fixed income investments. This might relate to how well the business operates, but it's not always the case. There are poorly-run businesses whose common stock is quite successful. Some of the successes in the airline industry illustrate this fact. The converse is also true: Some well-run businesses are terrible stocks."

Nifty hourly supports for February 18, 2008

Time AM/PM	Supports (1)	Upon violating supports (2)	Fall exhausts at (3)
09.55 - 10.30	5168	5106	5040
10.30 - 11.30	5194	5126	5056
11.30 - 12.30	5220	5146	5072
12.30 - 13.30	5236	5166	5088
13.30 - 14.30	5262	5186	5104
14.30 - 15.30	5288	5206	5120

NOTES
Trading derivatives is a risky activity. These studies do not assure profits. Please consult a certified financial analyst before trading.
—Vijay Bhambwani

Post office deposit rates and features

■ Kisan Vikas Patra	
Interest	Doubles in 8 yrs 7 mth
Effective interest rate	8.41%
Min. amount	Rs 100
Max. amount	No limit
Tax breaks	None
■ Monthly Income Scheme	
Interest	8%+ 5% bonus at maturity
Tenure	6 yrs
Min. amount	Rs 1,000
Max. amount	Rs 4.5 lakh for single a/c Rs 9 lakh for joint a/c
Tax breaks	Section 80C deduction
■ National Savings Certificate	
Interest	8%
Effective Interest Rate	8.16% (semi annual compounding)
Tenure	6 yrs
Min. amount	Rs 100
Max. amount	No limit
Tax breaks	Section 80C deduction
■ Public Provident Fund	
Interest	8%
Tenure	15 -16 yrs
Min. amount	Rs 500
Max. amount	Rs 70,000 p.a.
Tax breaks	Section 80C deduction
■ Recurring Deposit	
Interest	7.5%
Tenure	5 yrs
Min. amount	Rs 10
Max. amount	No limit
Tax breaks	None
■ Senior Citizens Savings Scheme	
Interest	9%
Tenure	5 yrs
Min. amount	Rs 1,000
Max. amount	Rs 15 lakh
Tax breaks	Section 80C deduction
Min. age	60 years
■ Time Deposit	
Interest	6.25-7.5%
Tenure	1,2,3,5 yrs
Min. amount	Rs 200
Max. amount	No limit
Tax breaks	None

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When young, have stomach for equity

That's the prescription for DNA Money reader Vishwambhar for shoring up his financial health

Priyesh Shah, CFP™



Meet the client:
Vishwambhar is 31 years of age and is a salaried professional. His wife Shital is 27 years of age and is also professionally employed. He has recently purchased a new flat at Lower Parel and stays there with his family. His father is 63 years of age and his mother is 59 years of age and both have good health.

Current financial position:
Vishwambhar has assets worth Rs 48.25 lakh and has outstanding housing loan for Rs 12.50 lakh which was recently taken for purchase of new flat. Salary income of Vishwambhar and his wife is Rs 2.88 lakh pa and Rs 2.76 lakh per annum respectively. He has other income including interest income of Rs 36,000 p.a. Annual expenses for the family are Rs 1.26 lakh.

Current insurance:
Vishwambhar has a term insurance of LIC for Sum Assured of Rs 20 lakh. He has medical cover of Rs 3 lakh for himself and spouse and also has a personal accident insurance.

Financial goals:
● To purchase a flat worth Rs 32 lakh for investment purpose within 6 months and earn rental income from the same.

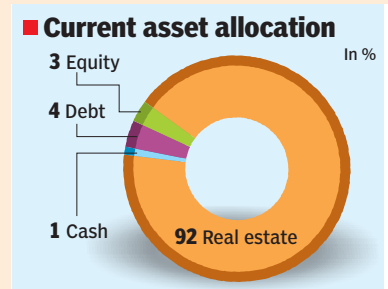


● Tax planning through purchase of property for let-out purpose.

Current asset allocation:
Vishwambhar's Current Assets are as under:

Current assets	Amount in Rs.
Cash in hand	50,000
PF	50,000
Shares	150,000
Residential flat	2,500,000
Additional flat	1,200,000
Land	750,000
Other valuables	100,000
Others	25,000
TOTAL	4,825,000

The above Asset Allocation of cash : debt : equity : real estate is as under:



Income Expense Analysis:
From your given income and expenses, we analyse that your 'expense to income ratio' is 21.01% which indicates that your expenses are in minimal, which provides you a higher savings potential.

Our analysis and recommenda-

tion:
● Vishwambhar has net worth of Rs 35.75 lakh. However, 92% of his current assets are in real estate.

● After analysing his risk profile, we understand that Vishwambhar is a very conservative investor.

● The goal of purchase of flat could be partly financed from sale of his existing additional flat worth Rs 12 lakh and the balance by taking a home loan. EMI for the same will be as follows which can be paid out of the savings:

Take additional home loan in wife's name	Rs 20,00,000
Interest rate (p.a.)	13.00
Tenure (years)	10
EMI	Rs 29,862

● When the flat purchased is given on rent, the entire amount of interest payable on home loan is allowed as deduction u/s 24 of Income Tax Act. Also repayment of principle amount of housing loan is allowed u/s 80 C up to the specified limit.

● We would also recommend that Vishwambhar should start investing in higher return earning avenues like equities and mutual funds. Considering his age and his family earnings and savings, there is a better potential to create more wealth over a period of time.

● Vishwambhar is a very conservative investor. However, at this young age we would recommend him to increase the portion of his equity investments in his total asset allocation.

● Considering his current annual expenditure and outstanding loan, Vishwambhar's need for insurance is adequately covered by his assets (excluding current residence) and existing term insurance policy of Rs 20 lakh. However, he should also consider other future goals and objectives for determining the total need for insurance.

● His mediclaim insurance and personal accident insurance are sufficient considering his age.

my finance

The writer is a Certified Financial Planner, working as Relationship Manager with Mumbai-based "SRE Financial Planners". The views expressed are those of the author and do not necessarily represent that of FPSB India. Feedback to the article may be mailed to myplan@fpsbindia.org

If you would like to be featured and need a financial plan made by a qualified planner, mail to: mymoney@dnaindia.net

'We aren't in a bear market yet'

Unless global markets fall 50% from their recent top, it would be just a downtrend, says Fidelity's Hochman

Sanat Vallikappen, Mumbai

Jeffrey Hochman, Fidelity International's director of technical strategy, is not the typical technical analyst. He studies candlesticks and wicks alright, but his assessment of the markets is based on the aggregation of any data he can lay his hands on.

“Equity markets are now facing the most severe test since the bull market began in 2003”

Nor is Fidelity, which manages around \$1.5 trillion in assets around the world, exactly known for its technical calls on the market, though top officials like Ashu Suyash, country head of Fidelity's mutual fund division in India do concede that “in the short-term, the markets are not driven by fundamentals alone.”

“Equity markets are now facing the most severe test since the bull market began in 2003,” says Hochman.

And how? “Markets were globally synchronised in the last five years (2003-2007). There was an unbelievable, powerful force that took them 45% above the trend line,” he says, adding, this made the risk-reward scale look abnormally steep last



year. So, when credit got repriced, with the subprime turmoil in the US, markets started moving back to the efficient frontier on the risk-reward metric.

Hochman, though, doesn't think it's a bear market yet. He would have us believe it is a downtrend.

“Only if global markets fall 50% from their recent top will I call it a bear market,” he says, adding, the scenario looks highly improbable.

“It could get worse before it gets better, but it can't get much worse from here,” says Hochman. He feels

“History shows that Fed cutting rates has always resulted in the markets going up within 12 months”

According to Hochman, the markets are in a state of capitulation now, after having gone through optimism, excitement, thrill, and euphoria when it rose, and then anxiety, denial and fear during the fall. “Now is the period of digestion of all that has happened,” he says.

But, something makes him optimistic about the future — the rate cuts by the US Fed. “History shows that Fed cutting rates has always resulted in the markets going up within 12 months,” says Hochman.

Hochman points to the fact that while the normal correlation between the US and emerging markets is 20%, it has been a very high 84% in the last 12-months.

So, whatever happens in the US is bound to have its repercussion in the emerging markets.

That said, the case for India certainly looks brighter than the rest. “On a 40-week moving average basis, the breadth of the Indian markets (advances over declines) is still positive,” he said.

But, the key for India, as for other emerging markets, which look overvalued compared with the developed world, will be the growth in earnings. “It's very important for the projected earnings to actually come through,” says Hochman.

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Just 5 questions...



Ajay Padval, vice president - portfolio management services, KR Choksey Securities

■ What is the situation after the market fall after the start of this year?

When the markets fell after the Ketan Parekh scam or even in May 2006, one was not sure of the comeback. This time there is a surety of the earnings quality. The fall was not a call on the fundamentals of the market, but was a systemic fall. Situation is much better now. Market seems to be perfectly hedged.

■ What is in the mind of the investors?
The picture is not all that scary. FIIs have been big-time sellers. But the selling has been absorbed by domestic investors. Even though there were reports of growth slowing down, the fears were subsided after Prime Minister Manmohan Singh said last week that we will still achieve 9% growth.

■ What course do you expect the market to take now?

It should stabilise for a month. If it remains at lower levels for some time, speculative positions would move away. If the markets moves sharply then speculative positions would again build up.

■ Is it the right time to get into large-caps?

As the annual budget is midway, I will not advise investors to have the entire portfolio in stocks. But, partial position may be made now. It is the right time for investors with a 2-2.5 years' horizon, provided positive earnings numbers are sustained.

■ What sectors are likely to be best benefited?

We are bullish on the interest rate scenario and hence on the banking, real estate and auto sectors.

Investors find it hard to accept that the financial future is not predictable, writes Fed Schwed Jr

Blame yourself every time a market expert fails you

Vivek Kaul, Mumbai

The Sensex has fallen by 10.8% since the beginning of this year. Experts who till two months back saw no wrong with the up and away Sensex, and were predicting it will continue to go up, can now be seen on news channels saying “I told you so” on the fall.

Fact is, most of them really don't know what they are talking about.

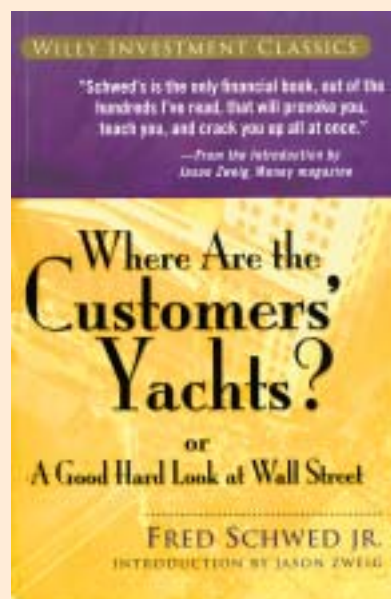
As Fred Schwed Jr writes in *Where Are the Customers' Yachts? or A Good Hard Look at Wall Street*, “Deep thinking continues to be, as ever, mostly second guessing.”

The book was first published in 1940, and remains relevant even today.

Schwed writes, “But it is surprising that no one of them is ever quite right? The best explanation is that some of them don't know what they are talking about; and those who do know, don't tell all they know, or don't permit themselves to believe all they know.”

So, why try and predict something that is largely unpredictable?

Well, there are several reasons. For one, “It seems that the immature mind has a regrettable tendency to believe as actually true that which it only hopes to be true. In this case, the notion that the financial future is not predictable is just too unpleasant to be given any room at all in the Wall Streeter's con-



sciousness. But, we expect a child to grow up in time... This, however, is asking too much of the romantic Wall Streeter - and they are all romantics, whether villains or philanthropists. Else, they would have never chosen this business, which is a business of dreams. But the ultimate dream they almost never shed: that there is a secret, meaningful and predictable, in

“History does in a vague way repeat itself, but it does it slowly and ponderously, and with an infinite number of surprising variations”

the rise and fall of financial enterprises - that a “close study” of this and that will prove something; that it will tell the initiate when there will be a rally and give the speculator a better than even chance of making a killing,” writes Schwed.

Also, most investors like to know where the stock market is headed to. And this is where the so called “stock market” experts come in, to fulfil an inherent need.

Schwed writes, “For one thing, customers have an unfortunate habit of asking about the financial future. Now, if you do someone the signal honour of asking him a difficult question, you may be assured that you will get a detailed answer. Rarely will it be the most difficult of all answers - ‘I don't know.’”

And at times, the “cock and bull” story these experts come up with is largely to generate more business for firms they work for. “On the economic side there is no denying that the more fi-

nancial predictions you make, the more business you do and the more commissions you get. That, we all know, is not the right way to act at all. But I doubt if there are many, or any, Wall Streeters who sit down and say to themselves cool, “Now let's see. What cock-and-bull story shall I invest and tell them today”... The broker influences the customer with his knowledge of the future, but only after he has convinced himself,” writes Schwed.

The other kind of prediction maker is the chartist or the technical analyst, as they are popularly known these days.

Schwed writes, “He arms himself with a chart (the simplest sort of graph) which depicts the ups and downs in price of the market as whole or of a commodity. This he studies, well away from the news ticker. It is his claim that he can discern in this jagged pattern of behaviour, which reproduces itself, and that certain of the peaks, valleys, and wobbles tell him when it about to do it again.”

A chartist essentially bets on the fact that history will repeat itself. “When the student peers, however closely, at a graph of the Dow-Jones averages, for instance, all he sees for certain is a history of past performances clearly and conveniently depicted. That one can, by examining the line drawn already,

make a useful guess on the line not yet drawn, must be predicated on the hypothesis that “history repeats itself.” History does in a vague way repeat itself, but it does it slowly and ponderously, and with an infinite number of surprising variations,” writes Schwed.

And this is where the problem lies. History repeats itself too slowly, whereas chartists most times are trying to predict where the markets are headed month on month and at times even for a shorter period. And that is why a lot of them trading on their own money, do go bust.

“It is the popular feeling in Wall Street that chart readers are pretty occult professors, but that somehow most of them are broke. A busted chart reader, however, is never apologetic about his method - he is, if anything, more enthusiastic than the solvent devotee you may run across. If you have the bad taste to ask him how it happens that he is broke, he tells you quite ingenuously that he made the all too human error of not believing his own charts. This naive thought comforts him; he doesn't mind so much losing his money, but it would have been more than he could stand to lose his faith in his beloved chart system,” writes Schwed.

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