

INVESTMENT INSIGHT

Monthly Update



Feb 11, 2010

Editorial

Economies at crossroad! The time has come where world economies have to make a difficult choice of either prune down the stimulus by believing that recession is averted and to check the economic management from going out of control or continue providing stimulus so not to jeopardize the recovery and adding the risk of economic management go out of hand. Choice is difficult as it can be both ways and it seems pruning the stimulus as more likely scenario considering high fiscal deficit, rising debt levels and resulting default risk. The steps taken by government will by large impact the stock market which could result in rising volatility.

The latest announcements of upbeat GDP data from all over world economies indicated that measures taken by governments have yielded the desired results. Domestically, GDP data has sprung the positive surprised with accompanied good results from industry, exports/imports and other economic data. This has made government and people in general to believe that economies are back on track and therefore government can breathe easy and pursue strategies to maintain fiscal balance. Government has already initiated by hinting on subtle moves to move back to more conservative policies. The first step was being taken by RBI by hiking the CRR to mop up excess liquidity without tempering the key rates. This is essentially done keeping in view the rising inflation rate expectations without affecting the recovery process. Though, in the hind sight it implies that government authorities are mulling over walking the path of prudence to balance the fiscal deficit and economic management.

Every economy has to take the path of fiscal prudence to prevent their economic management and credibility go out of hand, just the timing will differ depending upon the capacity and strength of the economy to move ahead without further stimulus support. Judging the strength of economic recovery thus is the key on achieving sustained growth ahead without stimulus. Therefore, there is still a risk of things going out of control and economies plunging back to recession if the correct judgment is not made. Although emerging countries were not as affected as the developed countries but any major setback to developed economies will result in cascading damage to emerging markets.

This uneasiness has started reflecting in the stock prices also. Likely scenario as predicted earlier also could be a range bound market for long time before consolidation of economic activities and proper balance is achieved again. Therefore it seems that long period of uncertainty is going to grip world economies which could result in volatile sessions in stock market. However, this provides wonderful opportunity for long term investors to consolidate their position to reap substantial gains from the future spurt in the Indian stock market. And the best way to do this is through evergreen SIP/STP method which helps averaging the buying price with simultaneous reduction in effect of excess volatility.

Happy Investing!