

INVESTMENT INSIGHT

Monthly Update



Nov 10, 2009

Editorial

Milestones of big achievements are set by great human efforts & sometimes by stimulus. US GDP grew at 3.5% annualized rate signaling end of worst recession since 1930s. World markets were upbeat on the day of announcement. Indian markets also had a gap up opening but all gains petered out when the investors read into the fine-prints of GDP report to realize that growth was mostly due to government stimulus in form of cash for clunkers and tax credit for first time house buyers and not due to real economic recovery supported by demand. Other factors which played havoc were lingering concerns of tightening monetary policy going forward and unwinding of carry-forward trade on US dollar due to strengthening of greenback. Despite strong reported GDP numbers, now the big question is whether the recovery is here to stay or it is just a flash in the pan?

As mentioned, stimulus had played major role in boosting the numbers than the real demand in the previous quarter. Subsidy related to cash for clunkers is gone and tax credit subsidy is set to expire this month. Now, when the government will start closing the tap of funds to limit further expansion of already stretched fiscal deficit, the reported numbers may not be as good. There is a need of real demand to pick up to sustain the GDP numbers as economy cannot continue to run forever from the dose of stimulus. Rising unemployment, fall in consumer demand and continued bankruptcy by banks indicate the scenario is not as good as it is made out to be and better times are still sometime away.

Companies all around the world including Indian Inc. reported robust bottom-line growth but top-line growth remained subdued. Better than expected net profit figures were reported on back of government subsidies, central bank's largesse, pink slips and crash in commodity prices. However, sales stagnated with consumers refusing to loosen purse strings. So, despite the hoopla surrounding the net profit numbers and turn around expectations, the convincing conformity of profitability will not be established unless there is a pick up in sales. It's imminent that demand should boost the top-line to support the bottom-line growth rate going forward.

Therefore, a kind of a V-shape recovery what everyone is hoping for is just a wishful thinking. There seems to be a consolidation phase, tectonic shift of power and trade amid rising inflation and interest rate scenario. This change will not be easy and period of pain will continue which will result in stock market consolidating for sometime in a big trading range before starting another massive bull run. However, every crisis springs great opportunity and intelligent investor should be ready to take advantage of that. Investors are advised to use this opportunity to consolidate by investing in staggered manner to build a strong base to ride the next bull in the market and create wealth on the back of strong Indian growth story.

Happy Investing!