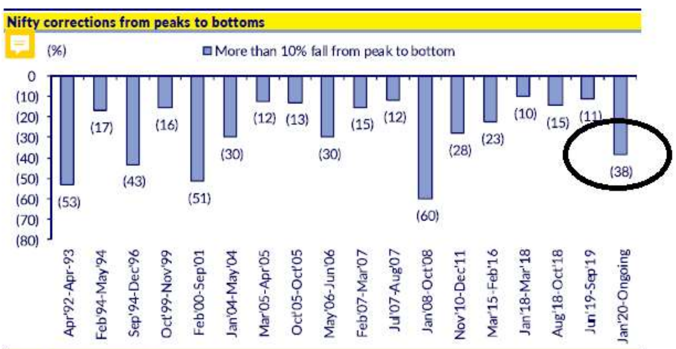
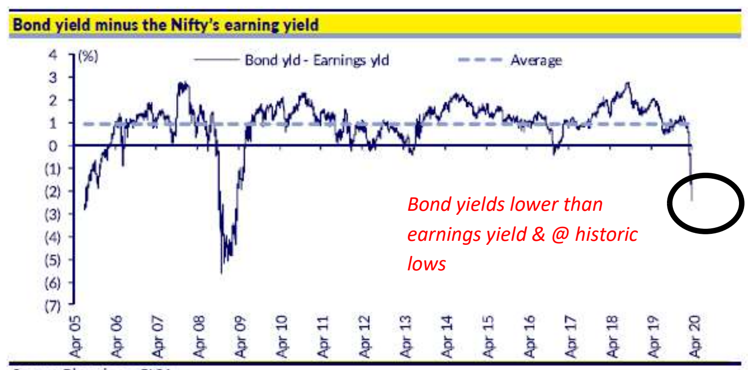
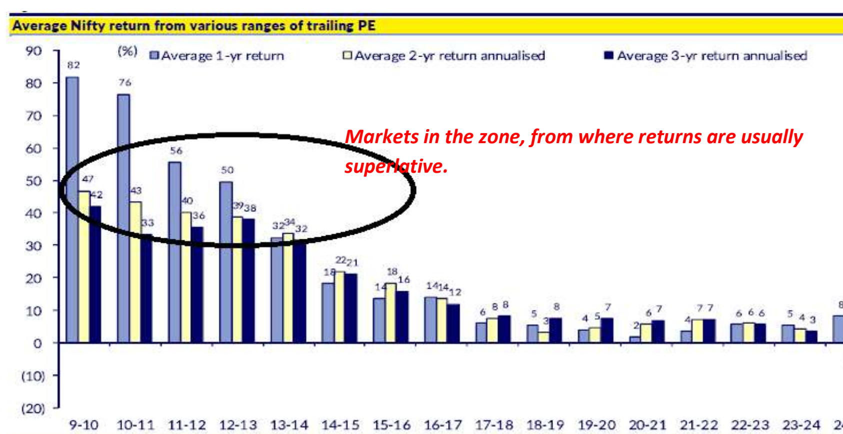
Cash is king!!! But for how long

We stand at an unprecedented juncture when all economic activities other than essentials are shut. We believe that this may have a serious short term impact that may affect the FY21 GDP growth. Hence, as a forewarning, the stock markets across the globe have plunged, the Indian markets have fallen close to 40% from their January 2020 peak. However, as we had mentioned earlier we have de-risked all portfolios and currently most portfolios are holding cash between between 25-40% and gold of about 5-10%. This has helped us limit downside to a large extent. There will be negative numbers in the March end portfolio reports, but no reason to panic.

Now, having achieved the first objective of limiting downside, we should not lose sight of the larger purpose of investing, to create long term inflation beating returns. We can't possible do that by remaining in cash forever, but need to take advantage of market corrections and the fear sentiment to our benefit. The current fall is the second steepest fall in the last 20 years in the Indian markets and valuations have reached close to long time average lows.







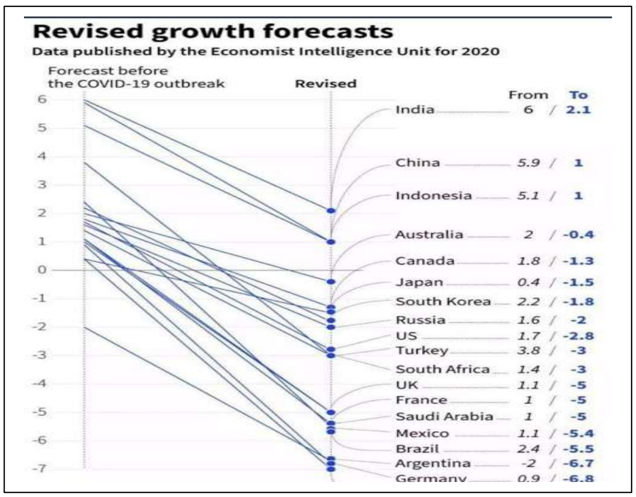
Source: CLSA

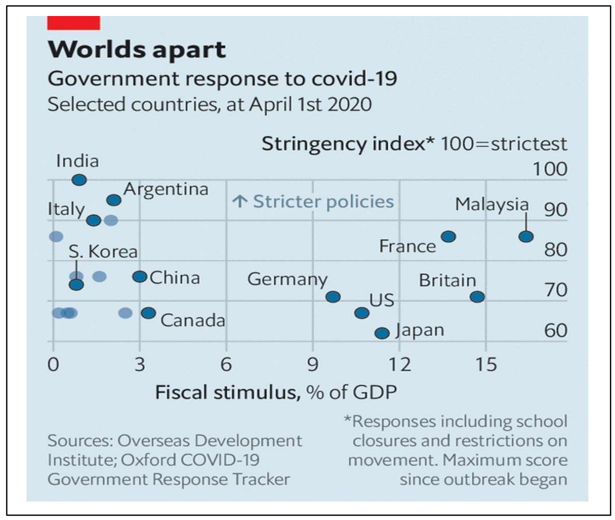
As seen these graphs, post the correction the valuations parameters of the benchmark indices are multi year lows
Fig2: Bond Yields are usually higher than equity earnings yield (1/PE) but as of now the difference is negative and at historic lows
Fig3: Trailing PE for the Nifty is at decadal lows
If you see **Fig 4**: **Markets have usually given superlative returns over 1yr, 2yr and 3 years period from such lows in the past. As of now we are in that zone.** However, as seen in the graphs above, we cannot rule out further downside from these levels, but we can be confident that we are closer to it. Its perilous to predict or wait for that bottom, so we have decided to act.

Way forward: baby steps towards a recovery

As explained above, we feel that the current correction might not have run its course, but current valuations post this fall have started to look attractive. Apart from this, as you can see India has been relatively better off as far as the Covid-19 Management is concerned and as per some expert views we are one of the few economies which might be showing some growth for FY21 as opposed to contraction world over. Also we strongly feel that global corporations will look at de-risking and diversifying supply chains away from China once the world recovers and India can be a huge beneficiary of this. So the long-term outlook for Indian economy and consequently Indian equity remains sanguine.

India is one of the few bright spots remaining and also has better record in managing Covid as per the Economist





We believe that the markets may remain volatile in the short term and there could be some more downside and it is very difficult to predict when the recovery will happen. Hence, we feel that a staggered approach to reinvesting the cash into equity will help us significantly to lower our cost of acquisition and an opportunity to make use of this fear. We believe that this strategy may help towards creating a higher return on investments over a period of time.

Strategy for the portfolio

- We will move money back to equity in a staggered phase, through STP, invest back to equity schemes from these liquid funds. Will retain the Gold allocation
- The STP would be largely on a daily basis over the next three months so that the portfolio can participate on every downfalls and lower its cost of acquisition
- **In this exercise our only target is to lower the cost of acquisition. Hence if the equity again shows signs of a bull rally we will take the requisite action.**

We believe that as long as we are invested in Equity mutual fund schemes with long term track record and quality portfolio, we can create wealth in the long term albeit with phases of volatility like the one witnessed now.

We would conclude this report by stating that "THIS TOO SHALL PASS".

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