

# Investment Strategy for August 2009

August 18, 2009

Investment Strategy

We recommend the following:

- **Sell mutual funds, sell Nifty related stocks:** Almost all mutual funds have a similar portfolio. Most of these stocks are in Nifty or Junior Nifty. As explained in the previous note the valuations are demanding for these stocks (Price earnings ratio greater than 20). At the same time the dividend yields are close to all time lows. Earnings have also fallen for last twelve months. The IPOs (Adani Power, NHPC) have been priced much above the fair value. In our estimate these IPOs are about 70% over priced. All these signals point to an expensive equity markets. Investors will do well to sell their mutual fund holding and typical Nifty related stock.
- **Buy Gold ETFs : 15 % of the portfolio:** Seeds of inflation are being sown by governments around the world. Indian government is not far behind. RBI is buying significant amount of bonds. This is equivalent to monetization. Inflation is not evident at this point of time because of slow down in industrial activity and fall in demand. However with excess liquidity in the system any increase significant increase in demand will increase inflation. Gold is a good hedge against such development. Gold ETF is the most efficient way to hold gold.
- **Short Nifty : 5% of the portfolio:** Shorting Nifty is a speculative position which we are comfortable with right now. The valuations are demanding, earnings are falling, dividend are low, accounting standards are low and to top it all aggressively priced IPOs are getting good response. All these factors point to peaking of market. If the Nifty goes up we will increase our short position.
- **Buy model portfolio : 5 % of the assets:** There are a few stocks which are still reasonably priced, though their ranks are thinning. We will buy only in small bits. If the markets fall these stocks will also fall. Currently people are too optimistic about the future.
- **Hold cash: 75% of the assets:** We will wait for the right opportunity before investing. These are not great time for committing long term capital. Patience, diligence and independence will be rewarded.