# A lacklustre April doesn't mean the bulls won't return

**Your Money**

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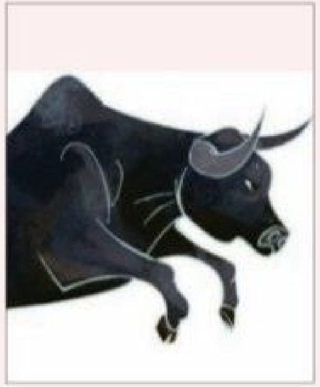
WITH EQUITY markets having delivered a smart 35% in the previous fiscal, the current financial year has seen a slow start, making many a retail investor wonder if it's the beginning of a correction phase. So, should they use this as an opportunity to cash out, or continue to allocate money to equities?

The point to note here is that the returns seen last year were mainly driven by optimism and the belief that the new government at the Centre would focus on reforms, thus changing the landscape of the economy and, consequently, leading to improvement in corporate earnings. The economy is well on track towards a strong economic recovery, backed by improving macros and the reform push by the government. The recent weakness in the markets could be attributed to the slow pace of recovery in earnings and fears of foreign institutional investors pulling out.

Coming to the delay in earnings pick-up, there are strong reasons to believe that it would gather pace in the next few quarters. This would be a function of lower commodity prices, low interest costs and increase in demand, leading to higher capacity utilisation. The fear of FIIs pulling out of the Indian markets crops up time and again due to various reasons, whether it's the probability of a Fed rate hike or retrospective tax issues.

However, this too is not a concern as FIIs' decision to invest in a particular country is mainly due to its growth and profit potential and, as on date, they continue to be optimistic. They prefer India vis-à-vis other emerging market peers as a long-term investment destination. In fact, they are using this as an opportunity and have pumped roughly ₹32,887 crore into the Indian markets compared to ₹4,424 crore by domestic institutions.



So, the big picture of strong fundamental and earnings recovery remains intact. In fact, the recent correction has moved markets into a fair-value zone. On a one-year forward P/E basis, the 30-share Sensex is trading at 16.34 times, well within one standard deviation of its long-term average.

In our view, equities are headed towards a bull phase and these short volatile phases should be looked at as an opportunity to increase equity allocations from a medium- to long-term perspective. Retail investors, too, need to understand that for any substantial wealth creation, especially in the context of equities; long-term investment is what they should be aiming for.

Equities would always bear the risk of being volatile in the near term, but as the investment horizon increases, the probability of consistent returns increases. Retail investors should participate in the equity markets through mutual funds. Since they invest in a basket of stocks and actively manage it, investors get access to a portfolio, which is less volatile compared to stocks, and do not need regular tracking or expertise. Retail investors may consider investing in mutual funds through systematic investment plans as it brings in investment discipline and averages out the cost of investment, which is an advantage in volatile markets.

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