

# 'Try not to ride the market on a daily basis'

**Paresh J Khandwala**, managing director, Khandwala Securities, is a second generation stock broker. "Credit goes to my father, who built this institution from scratch. He started the business in Surat in 1936 and moved to Bombay in 1947. I entered the market in 1974, when I was 21-year-old," Khandwala says from his aesthetically decorated office with paintings and little Ganesha idols sharing space with trading terminals and Bloomberg monitors.

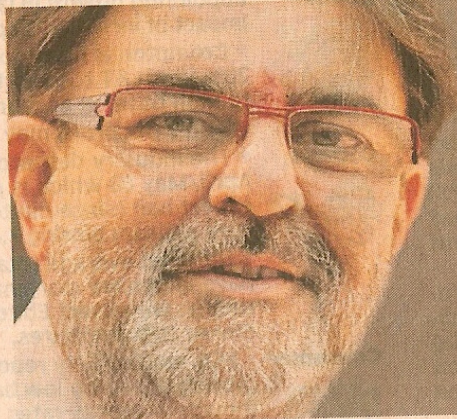
Sitting in his office near the Bombay Stock Exchange, Khandwala deals mostly with HNIs and institutions. Among his clientele was the Nizam of Hyderabad. At one point, the Royals from Deccan had held significant equity in some major companies such as Telco and Ashok Leyland through their Nizam Investment Trust in the 60s and the 70s. "They held up to 30-40% in some of these companies. Then in 1977, there was a legislation, which barred trust from holding equity assets and they had to liquidate. We executed the sale and the liquidation continued till 1982."

That was the year when Paresh had to take charge, as his father passed away. Twenty six years later, now, the 55-year-old man is all set to pass on the baton to the next generation. "My sons have made a presentation to the board for their induction. I am keeping away as I am an interested party. The board will decide," he says.

He spoke to **N Sundaresha Subramanian** on things beyond his own business as well, primarily the market.

## What is your near-term outlook?

Value will prevail. The slowdown concerns are everywhere and in addition we had political uncertainty also. But, with a pro-industrialist government coming to



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power, they will try to implement all the leftover reforms, which could further help market sentiments.

## Does the flight of FIIs worry you?

P-note rule was a dampener, which triggered the sale. FIIs have taken out \$ 6.5 billion in the past six months. This is just 9-10% of their total investment. In 2008, the market reached the peak. FIIs had made large gains in stock prices and currency. Some of them might be taking profits. In our opinion it's good because, once things settle, there will be good appetite, which will take the market up. If you compare this with local mutual funds, banks and insurance companies, they are huge. LIC alone invests Rs 40,000 crore annually. Forty per-

cent of this comes directly into the secondary market. But, the problem is that these guys are poor inn taking the lead. They often get driven by the trend set by FIIs. If they buy, we want to follow. If they are bearish, we go into our shells. But, we are of the opinion that the trend has started to change. People here are taking the front seat. With all valuations at one-third, medium to long term

it's a great opportunity.

## Will FIIs come back?

If things stabilise, you could be looking at 30-35% return at index level in six months. You look at any of the developing markets; none of them can offer such value. We will see over \$20-25 billion coming through various routes to cash in on the interest rate differentials. I feel US Fed may not start raising rates. They may stop cutting, but they may not raise.

## What about oil?

We don't have a short-term view on oil, whether it will go to \$150 or \$170. But, by October-November, we expect it to settle at \$110 levels. The big global investment banks, which had suffered huge write-offs in subprime, have to make good their losses somewhere. Money has been raised through various short-term instruments and they have put it in crude. These short-term instruments would come for maturity. They have to repay. This will cause a cooling effect.

## What are the risks to this outlook?

The beauty of this market is that you

may be fundamentally right. You might have come to a conclusion after evaluating every parameter possible. But still, you can go wrong as the sentiment is different. What can be done in these situations are only corrective measures. Often you may have to book losses.

## Any major policy decision that could have been averted and thus helped things?

Three major negatives. We call it the bad decisions in good times.

Stopping external commercial borrowings, supporting the dollar and limiting investment in G-secs. If you had let dollar to fall to 34 levels, you could have managed the oil crisis a lot better. Your import bills would have been lower by 18%. The sectors that were affected could have been given sops.

## How do you cut losses in a falling market?

My father took me through the nitty-gritty of this business.

He told me, "For your 1%, don't risk somebody's 99%." The January episode was largely due to people throwing this basic tenet to the winds. The most important thing is to ensure capital protection at customer level.

During such up-moves, like the one we saw over the past three years, it's important not to reinvest all your gains. For example, if you have made Rs 120 on your Rs 100 investment, you should move it to debt. So even if your Rs 100 falls to Rs 30. Overall you are in green, taking into account the debt investments.

Investors should not try to ride the markets on a daily basis, particularly at retail level. One should wait for the right days to trade. You need only 20 good days out of 220 days of trade and you can go home with 100% returns.

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