

# Investors may look for opportunities in a volatile market, says Nityanand Prabhu

TL;DR.

**In an interview with MintGenie, Prabhu said that when it comes to long-term investing, timing the market may not be a good strategy.**

Nityanand Prabhu, Executive Director and Business Head, LIC Mutual Fund Asset Management

Looking at the situation that we are in, we believe the possibility of sharp correction may not be a near possibility, says Nityanand Prabhu, Executive Director and Business Head, LIC Mutual Fund Asset Management.

In an interview with *MintGenie*, Prabhu said that the BFSI segment, especially the lending business has been a performer, with most banks reporting margin expansion and a further improvement in asset quality.

## Edited Excerpts:

**Q. There are alternate cycles in the market focusing on growth and value. How should investors decide on their mutual fund investments to benefit from the same?**

The baton of investment theme keeps on changing hands from value investing to growth and back to value depending on various factors including global, geopolitical, macro picture, and prevailing interest rate scenarios. Retail investors may not focus much on interest rate volatility and short-term movements in the market as these will keep evolving, rather they should focus on wealth creation through long-term investing. Investors should follow a disciplined approach to investing through investment in [Systematic Investment Plans \(SIPs\)](#) as it will eventually average out their costs.

**Q. Investors sense a positive momentum in the stock market, thanks to the financial sector. How do you foresee the growth of the Indian market, and in particular, which sector(s)?**

I am optimistic about Indian markets over the medium to long term. Broader markets have been trading sideways for over six to eight quarters now. However, growth in business seems to have picked up pace backed by strong demand (rural as well as urban), rising income levels, and a stable political and economic environment. This is evident from the recent earning season, especially in sectors like BFSI, auto, oil, and industrials which have reported good numbers.

The BFSI segment, especially the lending business has been a performer, with most banks reporting margin expansion and a further improvement in asset quality. I believe large banks are now ready to fund the next leg of growth without worrying about any NPA issues.

**Q. There has been a deluge of investments into small savings schemes by senior citizens following the loss of indexation benefits in debt funds. Do you think investors must completely ignore putting money in debt funds, henceforth?**

Indexation benefit was an added advantage for investors to invest in debt funds, however, despite the withdrawal of LTCG, I believe investors will still prefer investing through mutual funds for multiple reasons. Firstly, debt mutual funds offer easy liquidity as most schemes do not have an exit load and one can put part or full redemption at any time, unlike traditional instruments where investors can't get part payment. Also, in the case of traditional instruments, one may have to bear a pre-closure penalty.

Secondly, debt mutual fund portfolios are updated on respective AMC's websites every fortnight. Investors can easily view where their money is deployed resulting in the highest level of "transparency". Debt funds offer a variety of options across the spectrum including duration, credit, passives, open, close-ended, etc.

Lastly, in a falling interest rate scenario, investors may get the benefit of capital appreciation as a portfolio is valued mark to market daily. This may not be possible in the case of traditional instruments. Also, savvy investors who want to time the market and invest for a shorter time frame may prefer the mutual fund route because of liquidity and the scope of capital gain.

**Q. Gold prices are rising. In this light, shouldn't investors focus on putting their money in multi-asset funds that allocate 10-15 per cent in gold ETFs?**

Metals like gold and silver have emerged as one of the performing asset classes, in the last 1.5 years fuelled by geopolitical uncertainties. Investment in a multi-asset fund offers diversification across assets and aims at reducing risk towards a particular asset class. It is considered a good strategy of investment as the money keeps on shifting asset class. I believe if diversification is the objective of an investor, one may allocate a part of his investment into gold and other metals.

**Q. How much mutual fund allocation do you advise investors planning early retirement? Please mention asset allocations too.**

A novice investor may invest in equities through mutual funds. Investors may consult their financial advisors before investing. Assuming the investor is in his mid-20s, and if he wishes to retire in his early 50s, he has roughly 25 years. Not to mention that he may have to fulfil his obligations like housing, marriage, and childcare apart from building his retirement corpus. In such a scenario, he may invest 100 per cent of his disposable income in active equity mutual funds for an initial 10 years. Thereafter, he may gradually shift to a mix of passive equity funds and debt funds for the next six to eight years.

By the age of 40, he may have 50 per cent of his corpus invested in pure equity and 50 per cent in a mix of passive equity funds and debt funds. In the next 10 years he may reduce his exposure from equity and shift it to debt fund such that by the time he is near his retirement age of let's say 50, he shall have a large part of his corpus invested in debt (over 60 per cent) and rest in passive equity funds.

## **Q. Investors are seeking a correction phase to initiate a bearish trade in this bullish phase. Does waiting for corrections make sense for long-term investors?**

When it comes to long-term investing, timing the market may not be a good strategy. Investors may look for opportunities in a volatile market. One needs to gauge the macro picture to get a grip on market movements in the near future. Looking at the situation that we are in, we believe the possibility of sharp correction may not be a near possibility.

With the sharp rebound in [equity markets](#) of Europe and the US where the recessionary fears were the highest, investors have gained confidence from the fact that the underlying business fundamentals (structural growth prospects, economic moats, improving competitive landscape as weaker players weed out, strong cash generation and robust balance sheets) would eventually triumph over any near-term economic uncertainty.

Thus, we believe, given the longer-term growth story of the Indian markets and current valuation levels (particularly in light of the top of the rate cycle and less than normalized profit margins) the current phase of the market is a great opportunity for the investors.

## **Q. FIIs are pumping funds into India to invest in the India growth story. How far do you agree with analysts' perspectives on India's growing economy?**

We are optimistic about the FII flows for multiple reasons. Markets have been in a consolidation phase for the last 18 months, and during this phase, the market has digested a lot of negative news like the Russia- Ukraine war, rising inflation, and hikes in interest rates. However, market valuations based on Bloomberg consensus are now at 18-19x one-year forward PE, limiting any major downside.

Post this consolidation phase, markets are expected to break out on the upside- barring any global unforeseen event. As regards India, two key advantages for India- Demographics and the rising middle class are expected to continue to drive India's growth for the next decade. With the current median age at just 28 years, the working-age population can be a crucial driver for India as an attractive manufacturing base.

India is also home to the largest middle class in the world. These factors coupled with continued reforms like the [Production Linked Incentive \(PLI\)](#) scheme for manufacturing across sectors are expected to create jobs, which in turn may lead to a burgeoning middle class and drive per capita income growth. This bodes well for sectors like discretionary consumption, manufacturing, exports, and [financial services](#) for the next decade.

Last year saw 21 unicorns against 45 the year before. And Bengaluru-based start-ups drew maximum funds followed by Gurgaon and Mumbai

First Published: 01 Jun 2023, 09:38 AM IST

