# India underweight stance pays off for Shankar Sharma

## Returns can be made by asset allocation and not stockpicking, he says

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His India portfolio is not exactly in the pink of health, but veteran investor Shankar Sharma *(pictured)* is exuberant as he takes the podium at the Morningstar Investment Conference in Mumbai.

That's not surprising, considering his global portfolio has risen 70 per cent this year. He attributes this to the strategy of diversifying across countries and asset classes. His firm First Global, a global securities house, looks for opportunities in developed economies such as the US and the UK, and emerging markets like Brazil and Russia.

While not exactly a doomsday advocate, Sharma has been perceived as a perennial bear with regard to his views on Indian equities. His decision to remain underweight on the country for many months now seems to have been proven right, though. India's benchmark indices are up 1.3 per cent in the year-to-date, but have slid 7.4 per cent since July 5 in rupee terms.

"We have avoided the bullish noise coming out of India. Back in April, I had tweeted that this market, irrespective of the election results, was toast. There was adequate data to suggest you were heading for a serious downturn," says Sharma.

For believers in India's long-term growth potential, Sharma points to some sobering statistics. In the last 10 years, he says the compound annual growth rate of Dollex 30 (returns of BSE Sensex in dollar terms) is zero, while that for S&P500 and Nasdaq Composite is 10.5 per cent and 9.7 per cent, respectively. MSCI World and Nikkei are up 6.6 per cent and 5.6 per cent, respectively, in the same period.

"India has been a long-term laggard. The gap in performance between India and others in the past few years has been widening even on a three-year and five-year basis," says Sharma, adding, "There will be smart stockpickers in India, but I would consider them to be outliers."

Sharma believes the rupee is hugely overvalued at present, as the currency hasn't budged much from the levels it was in 2013, when the taper tantrum hit home.

According to him, the currency needs to slide to 80-85 against the dollar to make it fairly valued.

His advice: diversify smartly and tactically across asset classes and avoid single-country exposure. "If you have a single country, single asset exposure, you are destined to lose sooner or later. One fine day you will lose it all, irrespective of what the government or fund managers tell you," says Sharma, whose firm invests in debt, commodities, equities, and real estate investment trusts.

He buttresses his case by pointing to the Asian financial crisis that gripped much of East Asia in 1997, leading to a slump in currencies, slide in share prices, and precipitous rise in private debt, impacting countries such as Thailand, Indonesia, and South Korea.

"We saw the East Asian tigers become basket cases almost overnight. Inflation spiked, banks went bust, and there was absolute mayhem in the market," says Sharma, adding there is nothing stopping India from slipping into a similar crisis. "It is not about India or no India, but avoiding over-exposure to a single country."

According to Sharma, 80-85 per cent of returns come from asset allocation decisions, and not smart bottom-up stockpicking. "Investors spend most of their time looking for stock winners and that too in a single market. It may make for great party talk, but that's not where the big returns will come from," he says.