

Why 2008 Now Looks Like a Picnic

Expert Take



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2008 was a chance to see the terrible beauty of this beautiful, dangerous beast called the stock market.

By the middle of 2008, the bear market was in full spate. The mood in Mumbai was maudlin. Brokers stopped buying fund managers after work drinks. Fund managers started hunting for farm land to retire to.

So we decided to do something about this impending career risk. We said: let's get the hell out of office and go visit some places, to get a feel for how bad things really are. So we went to the US. To the big cities. Small cities. Everybody we met (obviously, fund managers, because nobody else wanted to meet

brokers anyway), had their heads buried into their desks (except a few smart ones like Steve Eisman & Paulson).

Except this one very smart fund manager, Arshad Zakaria. He said, "Look out the window. Go to any bar. Or a restaurant. Does it look like the end of the world?"

So we went out. We could still afford to, given that we were long puts that had gotten deep in the money. Went to bars. Full. Fine dining restaurants. Full. Cafes. Full. We were mystified. The Dow was telling us it was all over. But Main Street was looking very different. We took a flight to San Francisco. First Class. Full. Business Class. Full. Economy. Near standing room. San Francisco was no different. It was rocking.

So we said, "This is America. Maybe these guys are different (they are). We have to go back to India and do this thing".

We went to Madhya Pradesh. Met villagers. They told us "Never been better. NREGA is giving us amazing household income. MSPs are very remunerative. We are upgrading. We are buying mo-bikes. Better biscuits, etcetera".



We felt cheated. We had come thinking we would hear Bear Market Porn. What we heard was a consumer story nobody in Nariman Point had a clue about.

We repeated this across several states and villages. Thinking Madhya Pradesh was enjoying some isolated boom because of... heck, who knew because of what.

We heard the same stories across rural India: Income levels were strong. Consumption was strong. There was confidence in the future. So propensity to consume was strong.

Out of these peripatations, several trades were born: Maruti in November 2008. Bajaj Auto shortly thereafter. The Real World was rocking. Whether in America. Or in Rural/ small town India.

Cut to 2020. Markets are tanking. Worse than 2008. So how does it look today, compared to 2008? Well: in 2008, the hit was on banks. Main Street was hurt but nowhere close to what banks suffered.

2020 is different. The scale of this economic tsunami, cutting across businesses is unprecedented. Several times 2008.

Entire cities, even almost countries in lockdown. Schools, colleges, cinemas shut across the capital. Supply chains disrupted. Consumer markets disrupted. Hotels, airlines, retail. Transport. Restaurants. Hair dressers. You name it.

Also remember: the context in which this crisis occurs: In 2008, the world was coming off 4 years of red hot growth. Interest rates were relatively high, so there existed substantial room for cuts. Debt levels globally were low, too.

In 2007, India grew 10%, with a 1% fiscal deficit. It went into 2008, a strong, robust economy. And that's

precisely why India almost didn't feel the 2008 crisis.

Today, for India, the Virus crisis couldn't have come at a worse time. There will be a cut to GDP growth, which already has been sickly last several quarters. The scope for a large stimulus is limited, given fiscal constraints (the recent oil fall notwithstanding, which again may be somewhat nullified by a falling rupee).

So what should you do with your money? It's in moments like this that the mantra of Asset Allocation starts to make sense.

Tactical asset allocation, which spreads investments across key asset classes, will eventually determine most of your returns. With peace of mind as bonus.

Being simply a single trick pony (ie, equities) simply doesn't work well. Equities can't be the only slice of the investment pizza.

As investment managers, we do know that equities are a seductive asset class. However, for now, other asset classes appear more sedative. Seduction can wait.

(The authors are founders of First Global, a Global PMS & Securities Firm.)