Print This P

Banks single handedly responsible for Nifty's recent run; investors should remain cautious: Shankar Sharma

The Indian stock market has been on an absolute roll over the past 30-40 days. It is as if all the markets have gotten over the virus concern completely.

It may well be so but as long-time students of the market, we must always dig deeper, because ultimately that is what people look to us old folks for - experience coupled with analysis.

In the one-month period ending November 10, 2020, the benchmark index, Nifty 50, has returned an impressive 6.10 percent. However, this performance has been driven single-handedly by the banking and financial services sector.

The data from October 1 is even more staggering. Bank Nifty is up a mighty 33 percent, while the Nifty is itself up around 12 percent.

So what's the significance?

Banking and financial services, which constitute slightly more than 35 percent of the Nifty 50 by weight, has contributed 7.33 percent to the overall performance of the benchmark index in the last month. What this means is that all the other sectors combined have contributed -1.23 percent.

From October 1, banks have contributed entirely and a bit more, to the NIFTY's 12 percent up move!

Why, as an investor, should you care?

Data from multiple markets and multiple time frames reveal that index performance driven by a narrow sector/narrow set of stocks is a cautionary yellow light, if not an outright red light.

Simply put, markets that are being driven by just a handful of companies while the broad market is falling or is not participating. This can signal some dangers ahead.

While not trying to be alarmist, historically, on several occasions, markets have reversed course after any substantial narrowing of breadth.

It may also surprise you to know that despite the recent outperformance, the banking index is still amongst the worst performing sectoral indices year to date, and is, despite all the sound and fury, more than 10 percent below its all-time high!

The point is not whether Indian banking is out of the woods or not. In our analysis, there is plenty of time ahead before which banks start growing. For the next few quarters, most sensible banks will focus on not growing assets but on containing bad loans.

The short point is that towards the end of intermediate Bull markets, a very common phenomenon is that underperforming and Laggard sectors start to rally. Now, this does not mean that the Bull market becomes transformed into a bear market.

All this means is that one should avoid getting carried away by the surface level and ask more detailed and pointed questions. It is only by asking critical questions that one can get deeper insights.

The larger point for you as investors is that you must keep asking your fund manager whether they are analysing markets deeply or not, or are they just getting carried away by the headline index performance.

The true test of fund management skill is not to start getting swept away by euphoria or hysteria, but to keep a sensible, analytical head on shoulders at all times.

Being mindful of the market's internal action only means that as investment managers, one remains extremely alert and vigilant in order to prevent damage to portfolios.

The primary goal of financial management has to be the avoidance of big losses.

And if your Portfolio Management Services (PMS) provider prevents significant damage to your portfolio, you will almost always win at this game of investing.

(Shankar Sharma, Devina Mehra, Achin Aggarwal, head Fund Management and Investment Strategy at First Global, a Global Asset Management Company)

Disclaimer *- The views and investment tips expressed by experts on Moneycontrol.com are their own and not those of the website or its management. Moneycontrol.com advises users to check with certified experts before taking any investment decisions.*