Post recession effect on the choice of Investment Opportunities : An Exploratory Research of Indian Market

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Abstract:

During recent years, Indian Capital Market is experiencing too much volatility. Post Subprime crisis led the world economy to unfortunate events such as great recession and debt crisis. India is definitely influenced by global economic trends due to integration with the world economy. Yet, the post global crisis era for Indian stock market has been more critical as compared to that in the crisis period. In such a capricious condition, the trend in stock prices is tough to judge. The Stock Price Behavior is always a divisive issue and many even in the financial community could not fully comprehend this. Indian economy is going through the critical phase when investment is unable to create wealth. The recession that has been afflicted in both world as well as Indian economy has increased the volatility of returns on stocks creating panic among investors. Presently, new financial instruments are introduced in the stock market to generate incentives to the investor. This paper attempts to analyse issues related to new investment instruments from the point of view of the investors' risk perceptions in the new investment environment. The innovative invest avenues always provide a better returns if invested properly. Although new trends are set in the market, it is too early to predict any change in the market trend.

Key Words: Investment, Risk, ETF, Commodity Trading, E-Series commodity Trading.

Introduction: Investment Climate after world economic crisis:

Since 2008, Indian economy is continuously combating the slow growth rate of Gross Domestic Product. The growth rate projection made by Ministry of Finance is lower than 7% approximately for the current fiscal year 2012-13, while the IMF projection still puts the rate at 7%. After slowdown, Indian investors are in a state of panic regarding their investment. The American subprime crisis followed by European debt crisis created the background of world economic crisis. The euro is in immense pressure due to credit crunch in big European economies such as Italy, France and Greece. Only the big giant, Germany is doing well. Now Euro crisis has been afflicting Indian economy as well. Also Indian Economy anticipates serious repercussions due to protectionist policy of American government regarding Business Process Outsourcing and Knowledge Process Outsourcing sectors.

Indian capital market has shown lots of ups and downs in past few years. Although this is not unique to Indian

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capital market, this global phenomenon arising out of uncertainties prevailing with euro and dollar have been causing crisis in countries worldwide. And then, India also has special domestic problems due to high inflation, ineffectiveness of both RBI' s measures to regulate recession and govt.'s investment stimulus policies. Investors burn their hands in stock markets, Mutual funds and ULIP plans. They are now looking for some new opportunities. The study conducted jointly by Merrill Lynch and Cap Gemini Ernest and Young, shows that High Net worth Individuals (HNI) are proactive in portfolio management, risk management and use diversification of assets just life the large institutions. HNI are dynamic in modifying their assets structure through the help of professionals. Accordingly, they keep an watch on new market trends to invest in new instruments. The new age investors are always searching for innovative products to enhance the value of investment. They diversify their investment across various types of assets and across emerging markets. They always consolidate information on assets and on the basis of their observations, they select new assets for investment.

Risk Perceptions of Investment

Risks and rewards go hand in hand in the stock market and higher the risk one is able to take, higher the returns one can expect. In fact, the first major Zurich Axiom on risk says: "Worry is not a sickness but a sign of health. If you are not worried, you are not risking enough". Then the minor axiom says: "Always play for meaningful stakes". The idea is that take always calculated risk. The risk can classified in seven broad areas.

1. **Default Risk:** This is the most frightening of all investment risks. The risk of non-payment refers to both the principal and the interest. For all unsecured loans, e.g. loans based on promissory notes, company deposits, etc., this risk is very high. It is better to look always credit rating with each attach instrument prior to invest.

2. **Business Risk :** One example of business risk can be cited from the report in the Business Standard. This was a story about a steel industrialist in Chattisgarh who was unable to find the groom/ bride for their girls and boys when steel industry in Chattishgarh was facing recession and almost closure. Since the failure of business afflicts personal and family happiness, investors need to be vigilant to avoid risk of business failures during the period of recession.

Liquidity Risk: The ease of convertibly of an asset into cash is termed as liquidity. Assets have different degree of convertibility into cash.

LIQUIDITY	SOME EXAMPLES
Very High	Cash, gold, silver, saving A/c with bank
High	FD with Bank, Shares of listed Company that are actively traded, units of Mutual fund, ETF, Gold Deposit
Medium	FD with Companies, Debenture , ULIPs after locking period
Low and very low	Real Estate, Art and Sculpture, Painting

Investors need to Choose an asset according to their liquidity needs and time preference for liquidity.

1. **Inflation Risk:** When prices go up, the purchasing power of money reduces. Let us think about an investment with 9.25% of return after a year, is done with objective of purchasing a durable consumer product. If the price of product increases by 12%, then that investment will fail to generate enough for buying the product. This is the inflation risk. So the choice of investment instruments should be such that they have returns higher than the inflation rate. This is the trick to safeguard from this risk.

2. **Interest Rate Risk:** Interest rate fluctuation is a common risk phenomenon. For a term deposit yielding 7.75% for a period of five years suffers from interest risks when term deposit rate is revised to 9.25% during period.

3. **Political Risk:** Political system has immense power to influence the economy. Now consider the case of TATA Nano in Singur. The opposition party in West Bengal opposed land acquisition for Nano plant for which Industries were shifted to Gujarat. As a result of proposed Nano Factory, the land prices near

Singur were increased phenomenally. Now, those who invested on land, are facing the risks of land prices not being revised after the factory location was shifting to Gujarat.

4. **Market Risk :** Market risk is the risk of movement in security prices due to factors that affect the market expectation as a whole. Natural disasters can be one such factor. The behavioral factor can also create such risk. The herd attitude of investors are able to cause fluctuation in the market driven by the group expectation. Stock markets and bond markets are affected by rising and falling prices due to alternating bullish and bearish periods. We are observing the bearish trend prevailing in the market in last two-three years.

The Indian Capital Market in recent days

In last two decades, 2011 was the worst year for Indian capital market. BSE Sensex shows a 25% fall during this year. The European credit crunch problem, RBI's strict credit control mechanism and central government paralyzed macroeconomic polices are reasons for such performance of Indian stock market. FII made less investment in the metal, banking, reality and infrastructure. As a result, there is a slide in the index by 5.4 %. There was erosion of Rs 2704 Crores from the market in the month of December 2011. FII investment has reduced in 206 companies in fourth quarter where as, it has increased its investment in 144 companies. January 2012 was good for of BSE and NSE. The confidence index of the stock markets had improved during this period. There was less corrections in the stock prices in this period. FII is always looking for profit margin outside the developed nation due to the credit crunch in the Euro zone and downturn in USA. RBI is now geared up to take bold steps to pull up the stock market. The reduction in the CRR and interest rate is the first step towards that goal. The market is now showing good mood with high confidence index.

New Investment Opportunities : in this uncertain enviroment of investment, investors can look into following new opportunity such as :

- **Real State:** In India, there was 182% growth in real estate during the period 2004-05 to 2009-10. The growth rate of the real estate has come down in 2010-11. Still the real estate industry which has been expanding at an exponential rate, is a good option for the investor. Favorable demographics, rising purchasing power, availability of cheap finance, professionalism in real estate and reforms initiated by the government are some of the major drivers of the growth in this sector. According to industry estimates, the real estate industry in India has been growing at 33 per cent CAGR (compound annual growth rate) and could be a $50 billion industry in next four years. The upturn straddles all the major sectors of the industry such as commercial, residential, retail, industrial, hospitality and healthcare. For investment, the residential property is one of the priority choices for middle class whereas farm houses and bungalows are now the top of choices for HNI investors after financial assets

- **Gold** : The gold is having its own glamour in India. From ancient period, the people of India believes in gold. They take it as insurance for tuff time. The trend of return in gold is better than other assets in the recent year. The performance of gold as investment opportunities can be judged through following statistics.

Table 1: Performance on various assets in INR (data ending 31 Jan 2012)

1-month	6.2%	13.9%	-6.8%	-4.6%	-3.7%	-4.4%	1.0%	1.5%	-4.8%	12.4%	10.6%
3-month	2.8%	1.3%	1.5%	3.3%	-1.9%	2.9%	2.3%	5.0%	4.1%	-2.8%	-2.9%
6-month	19.8%	7.1%	11.9%	7.7%	-0.7%	6.3%	4.9%	5.2%	15.5%	-4.7%	-5.5%
1-year	41.5%	31.4%	7.7%	5.8%	-5.1%	19.8%	9.7%	7.6%	19.8%	-5.6%	-6.2%
3-year	97.3%	95.5%	0.9%	39.1%	32.0%	153.8%	22.2%	12.3%	58.8%	96.7%	86.2%
5-year	200.2%	168.1%	12.0%	1.9%	3.3%	117.2%	47.8%	43.2%	68.9%	24.9%	22.0%
3y CAGR	25.4%	25.0%	0.3%	11.6%	9.7%	36.4%	6.9%	4.0%	16.7%	25.3%	23.0%
5y CAGR	24.6%	21.8%	2.3%	0.4%	0.7%	16.8%	8.1%	7.5%	11.0%	4.5%	4.1%

Source: Gold statistics based on the London PM fix.
CAGR = compounded annual growth rate (i.e., the geometric average rate of return over the corresponding period).
Source: Barclays Capital, Bloomberg, World Gold Council; calculations based on total return indices in INR unless not applicable.

The above statistics already suggest that return in gold is 200% during 5 year. The risk and return pattern of gold is very lucrative.

- **Silver : New Emerging Gold.**

Silver is also becoming a hot prospect for the new age investment. Silver in India was known as gold of the poor in early years. It is now a metal of expensive in nature. The price rise of silver is set to scale a new height almost on daily basis; this becomes very tough to judge where the white metal is heading. In the past two year, the silver price has increased by a gigantic 150% or 2.5 times. Traditionally, the trend of prices of both bullions — gold and silver — has remained more or less similar. But, this has not been the case in the last few years. In the year of 2005, the prices are at Rs.10,000/- for a Kilo which rich to Rs.56,000/- in Jan 2012.

- **Gold ETF:**

Holding gold as investment asset in the physical form is always a problems. When gold investment is convert to electronic form i.e. Gold ETF, the task will be easier. ETF (Exchange Traded Fund) stands as the fund which is traded in stock exchanges and managed by Mutual Fund Companies. ***"Gold ETFs are units representing physical gold, which may be in paper or dematerialized form. These units are traded on exchange like a single stock of any company".*** Investors can invest through any broker in the stock exchange with their DMAT A/c. The most important benefits of having Gold ETF are the transparent pricing and easy accessibility. Since the purity and security of gold is managed by AMC, investors are not exposed to the default risk. As ETF is being traded at stock exchange, it always provides the fair price to the investor with a good liquidity option. Although the returns from Gold ETF has been very diverse in last one year, some companies are able to get nearly 35% return during this period.

- **Commodity Trading: E- Series**

The National Spot Exchange Limited Launch (NSEL) has introduced E-Series products in the commodity trading. For retail investors, it is now trade and investment in commodities in the manner they invest on equities. This is an unique market segment which functions just like cash segment in equities yet offering commodities like gold, silver and copper in the demat forms in smaller denominations. This is a secure investment instrument and provides diversified product basket for mass investors. NSEL had launched its first product under the E-Series as E-Gold on the 17th March, 2010. Investors can buy any unit of the commodity according to their choice and investment requirement. This derivative trading segment is tailored for those who are well versed in the stock trading. Investors can convert their investments in to physical forms whenever they require. The table below gives some of important features of E-Series commoditity trading.

Table 3: E- Series Commodity

Commodity	Trading Unit	(Price quote)/ Base Value	Tick Size (Minimum Price Move ment	Daily Price Range	Maximum Order (Unit)	Initial/ Delivery Margin (%)	Settlement Cycle
E-gold	1=1 gm of gold	Per 1 gm gold of 995 Purity	10 Paise per unit	5%	10000	5/10	T + 2
E-Silver	100= 100 gm of silver	Per 100 gram Silver of 999 purity	10 Paise per unit	5%	50000	5/10	T + 2
E-Cooper	1 = 1 Kg of Copper	Per 1 Kilogram Copper exclusive of VAT/CST as applicable	0.05 per 1 kilogram / unit	5%	50000	5/10	T + 2

Commodity	Trading Unit	(Price quote) / Base Value	Tick Size (Minimum Price Move ment	Daily Price Range	Maximum Order (Unit)	Initial / Delivery Margin (%)	Settlement Cycle
E-Zince	1=1 Kg of Zinc	Per 1 Kilo-gram Zinc exclusive of VAT/CST as applicable	0.05 per 1 kilogram / Unit	5%	10000	5/10	T + 2
E-Lead	1 = 1 Kilogram of Lead	Per 1 Per 1 kilogram of Lead with 99.99% purity. Price is exclusive of VAT/CST as Applicable	0.05 per 1 kilogram / unit	5%	50000	5/10	T + 2

The best part of E- commodity trading is that any investor can go for participation into market without any hesitation and prior training, it is highly transparent.

Some tips Regarding Investment

- Always invest for long term.
- You can't buy what is popular and do well.
- Be greedy when others are fearful.
- If you are not expert in equity analysis, go for index fund
- Never invest on those securities that you cannot understand.
- Never lose money.
- Invest in small proportion with outstanding business.
- Never put all your eggs in one basket i.e. never go for single security portfolio.
- Keep passion for earning but never switch in hurry.
- Focus should be on return on equity not on earning per share.
- E-Commodity is good option to invest in commodity market.

Conclusion

This paper is an attempt to find out the recent trend in capital market during the period of recession. Indian investors are looking for security of their investment which is tough in the situation of volatility of investment atmosphere. This paper found that gold and silver are becoming more popular instruments for investment since the market confidence has become excellent towards them. New instruments such as Gold ETF and E- Commodity are gaining healthy responses for mass investors . E-Commodity as an investment instrument definitely serves the purpose for those investors who do not dare to participate in the derivative market. Since the US currency is losing its numero-uno , the faith in gold has been increasing. The asset market once again is moving towards "Back to the Basic".

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