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(Not Re-balancing. Time for a tectonic shift)

Indian Stock Indices have crashed by 34% from recent all-time highs. While the COVID 19 attack set off the events, the markets had already been beleaguered by the rich valuations, oil crisis, and more sector specific and Company specific fallouts - be it a Yes Bank or a Telecom. The Rupee has further depreciated by 5% and at an all-time low. Major rating agencies including S&P have revised the GDP estimate downwards based on the information circled so far.

The role of behaviourals can't be underplayed. The Volatility Index today shows that the NIFTY is going to be at zero in next one year and this reflects the degree of irrationality that is prevailing. Fear and Greed seems to be having a field day and are the reasons why some of the regulators globally decided to quarantine the stock markets briefly.

What and who is the SOS? If fiscal and monetary stimulus could help in preventing bear markets we would never have seen 2008. For sure, we are a better prepared world to face crises, leaders are more agile than ever before and upcoming elections offer compelling reasons for swift action. Still, we should be prepared to live through it to see a better day.

How is this different, as always?

Like any other event, this fall is different because, *more than anything else*, this is unfolding against a backdrop of huge structural shift that businesses world over have gone through and still going ie at a possible beginning of a new cycle. Some obvious examples from Indian context – we no more make/buy food the way we used, our shopping habits have changed, education delivery transformed, robots are completely replacing human skills. If fund managers picked (equity) stocks from supermarkets in 80's and 90's now they pick up stocks from amazon and flipkart – technology redefined the way we live and operate.

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Yes, portfolio ***re-balancing***, for sure both within portfolio and within asset class. The time-tested stoic stocks are available (or are going to be available) at prices that can enhance the IRRs by 5-6 percentage points with a long term horizon.

To consider one example: Consumer brands that are leaders are seldom available cheap. While in a Bull Market these stocks would be available at 40 PE, now the same sector is available at sub 30 PE level and can get cheaper.

However, is the tactical allocation within primary listed investments enough? Can the stock markets offer opportunities that reflect the structural shift in the way businesses are being conducted? Not fully.

Tectonic Shift

More interesting answers can be found in the unlisted space. There are many factors today that places PE in a unique spot. This is where managers are sitting on huge piles of cash, don't have mark-to-market risk, are more deeply involved in the fundamental tenets of the companies (called bottoms-up approach by value investors) and on all-pervasive cheaper valuations. The PE route provides the access to these unique opportunities. With the IPO plans fumigated overnight, with strong players calling the bluff of the pureplay leverages, with the reward of patience coming up, there is something adding up somewhere.

PE players in Asia are sitting on a dry powder of $388bn and with no pressure to deploy, that could mean steals rather than deals. High valuations, the biggest criticism for the PE investment, is not a reason to hold back now. Buybacks, stress situations, value bargains - all can offer opportunities to spot top talent in an understandable environment that can weave good long-term corporate fabric.

One should ride where the wave is.

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