It may be the Right Time to Switch Over to Cyclicals

Experts bet on auto, capital goods and mining stocks for better returns on economic revival hopes after elections, but are wary of infra sector due to likely project delays, says **Nikhil Walavalkar**

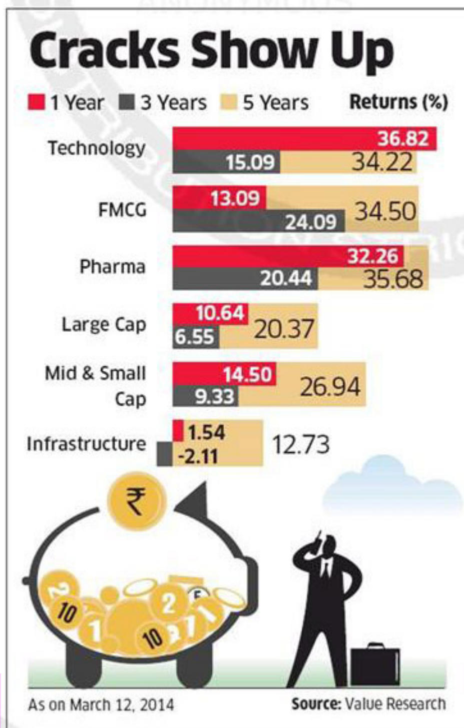
Sectoral funds that focus on defensive sectors like FMCG, technology and healthcare have consistently topped the performance charts in the last two, three and five years. However, their performance has started slipping in the recent past. For example, the FMCG funds category has grossly underperformed the broad markets with 2.17% returns against 10.86% registered by the NSE Nifty, according to Value Research, a mutual fund tracking entity.

S&P BSE FMCG (-2.56%) and S&P BSE Healthcare (+8.8%) have also underperformed the broad markets, while BSE Capital Goods (+44.88%) and CNX Infrastructure (+16.69%) outperformed during the same period. Numbers in the brackets connote absolute returns in six months.

"Recent performance of various sectors on bourses makes it clear that investors are moving out of defensives and getting into cyclical sectors," says Uday Dhoot, deputy CEO, International Money Matters, a Bangalore-based wealth management firm.

According to market pundits, most of the investment is taking place on expectation of an economic recovery after the general elections. If the economic growth gathers momentum, profits from cyclical stocks may rise. It may reward shareholders with high dividends and capital gains. "Investors have to be specific in cyclical stocks. Automobiles, capital goods and mining companies with monopoly status look good in this space," says Vikas V Gupta, EVP-traded markets & investment research, Arthveda Fund Management.

According to experts, automobile demand is likely to pick up in the next financial year and capital goods companies such as BHEL and ABB are expected to benefit from the increased capital expenditure in the economy. They also believe that Coal India is best placed to benefit from a revival in economic activity, as the demand from coal fired power station goes up. "However, stay away from infrastructure developer companies, as some projects may remain stalled for a prolonged period of time. Also, public sector banks can be avoided for the time being as they are likely to take some time to improve their balance sheets," adds Gupta.



As on March 12, 2014 **Source:** Value Research

"Investors should gradually move from defensives to cyclicals to benefit from economic recovery in future," says Ashish Shanker, head — investment advisory at Motilal Oswal Private Wealth Management. This gradual approach would help investors escape the risk of timing the market — the risk associated with investing your money at a particular moment of time.

Most experts also advise investors to opt for a diversified equity funds instead of getting into a sectoral funds to benefit from the cyclical theme. "Few investors understand the dynamics of a sector and it is rarely seen that retail investors have taken informed investment call on that sector," says Dhoot.

He recommends investing in Mirae India Opportunities Fund and ICICI Prudential Focused Bluechip Fund among large cap funds and HDFC mid-cap opportunities Fund and Mirae Emerging Bluechip Fund in mid and small cap funds. Shanker favours Franklin India Flexi Cap Fund and ICICI Prudential Discovery Fund.

Experts recommend diversified equity fund over a sector fund as a diversified equity fund manager can better manage risk by logging out of cyclical stocks in case of the expectations of economic revival does not materialise.

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