

# Avoid fancy midcap, smallcap ideas; stick to fallen angels from largecaps

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*Vikas Gupta, Executive Vice President and Chief Investment Officer, ArthVeda Capital, says sticking to the fallen angels from the largecap space can give investors better returns when the market revives. Excerpts from an exclusive interview with Kshitij Anand of ETMarkets.com:*

**ETMarkets.com: The fall in crude oil prices has taken the whole world by surprise in the first month of the New Year? What is your assessment? Do you think oil prices have hit the bottom or is there some more downside before it begins to inch higher again?**

**Vikas Gupta:** We don't think the fall in oil prices per se is much of a surprise. The severity, suddenness and intensity of the fall are surprising. Given the drop in demand from China and the brinkmanship on production within the Opec bloc, it was a given that the oil prices will crash.

Further, as Iran enters the market with a large capacity after the US-Iran nuke deal, calling the bottom of oil price was difficult. But it is clear that the prices cannot stay permanently low, since it is not sustainable for the oil producing countries. A rebound is bound to happen. The timing of the rebound is unlikely to be in the next few months though. However, it could happen over a year. Also, it is unlikely to go to the previous high levels.

**ETMarkets.com: After a steep correction in 2015, most of the largecaps are available at valuations almost that of midcaps. Do you recommend investors to get into these fancy stories or stick to larger ones which will see a rebound eventually?**

**Vikas Gupta:** We never like fancy stories and wherever they exist, valuations are already at fair levels if those fancy stories turn out to be true. If the stories do not turn out to be true, then one would have paid a very fancy price for those fancy stories.

So, we would avoid these stocks in the midcaps. We would stick to the fallen angels from the largecaps, which have become midcaps due to the fall. We think the largecaps are the most undervalued stocks, followed by the midcaps and then smallcaps, which are the most overvalued on a relative basis.

**ETMarkets.com: There is a saying that too much of something is also not good. Can we apply the same logic to crude prices vis-a-vis its impact on India? If crude oil prices fall further, will it be bad for the Indian market?**

**Vikas Gupta:** We should be clear in distinguishing between the economy and the capital markets. As far as the Indian economy is concerned, the fall in crude oil prices is clearly good news. In fact, it is an extremely good event. When you come to the Indian capital market, yes the fall in crude oil prices is due to a collapse in Chinese demand and, hence, it sends out a signal that the largest emerging economy is in trouble.

China being 24 per cent of the emerging market funds, the benchmarks have a large impact on the EM fund returns and, hence, when the returns are negative, there are redemptions.

Of course redemptions impact the whole EM basket and all countries see outflow of capital from capital markets. There is an impression that West Asian sovereign funds are heavily invested in India and they will need to redeem due to the crash in oil prices and use the money for domestic needs.

In our opinion, all of that will cause near-term turmoil, but in the longer term low oil prices are definitely extremely good for India and should start showing the positive impact on the economy, which will eventually translate into capital flows into the Indian capital market.

**ETMarkets.com: Smallcap and midcap stocks have taken a beating in this past week. Do you think the honeymoon period of these stocks is over now and the space will be subject to heavy selling in 2016?**

**Vikas Gupta:** Smallcaps are overvalued compared with the largecaps. Midcaps are reasonable in our opinion. So smallcaps will definitely see a difficult period.

We think many midcaps are also overvalued and they should see a fall. We would rather focus on largecaps and midcaps, which are



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undervalued and which will benefit more from the return of the FII's and also from a rebound in economic growth.

**ETMarkets.com: What are your top five strong fundamental value ideas for investors who are trying to dodge the volatility bullet?**

**Vikas Gupta:** For us, they would be Coal India, Infosys, Bajaj Auto, Apollo Tyres and NMDC .

**ETMarkets.com: What is the one investment mantra you think all investors should stick to in stock trading? Vikas Gupta:** Buy at a significant discount to intrinsic value and not worry about things such as whether a stock will fall further after you buy it. It could fall further for sure; most top value investors experience that. Don't buy on margin. Buy with a long-term horizon.

**ETMarkets.com: Everybody is blaming global factors for the current carnage on the Street. What is your assessment of the situation? How long will this selling spree last?**

**Vikas Gupta:** The selling spree in global markets should settle within this quarter. Central banks and governments will immediately step in to show that they are there to prevent a crisis. When liquidity is still there and the panic subsides, and the drop in the market creates a significantly undervalued situation, when someone starts buying and the selling spree gets over.

**ETMarkets.com: What should be the ideal portfolio strategy for investors to safeguard their portfolios against volatility?**

**Vikas Gupta:** In the equity market, volatility is a constant. They should rather focus on what is the equity capital that they can risk for the long term and how much of volatility they can handle.

Once they know that they should invest and let the ups and downs not bother them if they don't use leverage or margin or derivatives, a fall in the market is an opportunity to buy more or rebalance the portfolio.

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