

# Bear market offers opportunity to buy quality stocks for long term; tips to invest

By Narendra Nathan & Sanket Dhanorkar, ET Bureau | 25 Jan, 2016, 03.28AM IST

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MUMBAI: The Indian stock market entered bear territory last week when the **Sensex** hit a new 52-week low of 23,840 on January 20, a fall of 20.6 per cent from its all-time high of 30,025 hit on March 4, 2015. A fall of more than 20 per cent from the peak is considered a bear market. Experts say that though there will be short to medium term pain, a **bear market** is also an opportunity to buy for the long term. "Somewhere during the **stress**, the next **bull market** will start and the next leg of the bull market is going to be very powerful," says Mehraboon Irani, principal & head (PCG), Nirmal Bang Securities.

However, treat this as a buy signal only if you are ready for the long haul. "Don't expect a 'V' shaped recovery from current levels. The recovery will be 'U' shaped, that too with an extended bottom," says Kunj Bansal, executive director, Centrum Capital. Historically, the broader market valuation also comes down significantly before the next bull phase starts. The Sensex PE has fallen to its 20-year average so there is scope for a further decline. Here are five ways to make the most of the bear market opportunity:

**Be selective in stock picks:** Don't buy a stock just because it has fallen too much. "Start accumulating stocks where the results are looking strong or where the government policy impetus is likely to drive growth," says Dipen Shah, senior vice-president, Kotak Securities. On his radar are large-cap **IT stocks** and select road construction companies.

**Switch to large-cap stocks and funds:** The recent carnage in mid caps has brought prices down but large-cap stocks hold more promise. "Investors should stick to large-cap stocks as the risk-reward payoff is skewed toward this segment," says Feroze Azeez, deputy CEO, private wealth management at Anand Rathi Financial Services. Vikas Gupta, executive VP, traded markets, Arthveda Fund Management, also feels large-caps are significantly undervalued relative to mid-cap stocks. "Since the first leg of the recovery will be in large caps, this segment is a better bet in the short to medium term," says Bansal.

**Be ready for sector rotation:** The top performing sectors change in every bull market. Investors should look at beaten down sectors now and enter when stock prices reach reasonable levels. There is more pain in store for commodities, so leave them alone for the time being. However, PSU banks are a good buying option now, with some trading at 0.3-0.4 times their book value. "Investors with a 1-2 year horizon can consider buying PSU bank stocks," says Ajay Bagga, executive chairman, OPC Asset Solutions.

**Insure your portfolio:** Investors with large and well diversified portfolios should consider buying **Nifty** out-of-the-money put options to protect their holdings from further erosion. Even if you identify a very good stock, experts advise not to jump in now without any protection.

**Dynamic asset allocation:** Investors also need to manage their portfolio more dynamically. Small investors may not have the time or the ability to do this. Their best option could be dynamic asset allocation funds. They have a higher allocation to debt when markets are at highs and get into **equities** when markets are undervalued. Due to its lower volatility, this category is best suited for risk averse investors.

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