# Lessons from Jan 2008

Udayan Mukherjee – CNBC TV 18 – 22.01.2008 (2pm)

The thing about life is that one makes mistakes. Many mistakes were made in the second half of 2007 and those sins have to be washed away by blood, such is the way of financial markets. Some participants will go down under and never be able to get back to the market again but most will survive. The pain will linger for many months, maybe years but lessons have to be learnt. Every such debacle has lessons for us and the sooner we forget them the more we suffer.

The first lesson is not to let stock price performance become the sole reason for buying, a mistake which was made in abundance in the last 3 months. What couldn't be explained by fundamentals was credited to liquidity. The present lost all relevance as people chose to focus on the distant future, perhaps simply because the present could never justify those ticker prices; only a hazy dream of the future could. Traders and investors had no time for fundamental analysts; in many cases they were labeled "cribbing fools". Chartists became the most celebrated tribe on the street as only they could see and predict the one way run to glory for many of the hot stocks even as fundamental watchers cringed at valuations.... till the music stopped. Don't get me wrong, charts do work in trending markets but once stock prices veer away completely from fundamental value, people need to get careful. But they never are. Now that the blinkers are off, people should ask themselves why stocks like RNRL, Ispat, RPL, Essar oil and Nagarjuna fertilizers have lost 50-70% of their value. It is simply because their stock prices had snapped all connection with underlying business fundamentals, earnings and value. Their stock prices became the only reasons for buying them which works for a while but not forever.

The other big lesson, one which should have been driven in earlier in May 2006, is the danger of overextending oneself in the futures market. The lure of stock futures is easy to understand. Put in some margin, take a big exposure on a fast moving stock, make a killing when prices shoot up. Repeat exercise. Just that people forgot that prices may also come down and at a pace which none can even imagine, maybe their friendly stockbrokers forgot to tell them that part of the story. The result: unbridled speculation that ran into lakhs of crores, excesses that we are paying for today. Even this fall will not cure investors of their love for futures speculation but if at least some amount of caution were injected it would have been a worthwhile learning. Futures are not toys for amateurs, they are time bombs in the hands of inexpert and inexperienced traders, it's only a matter of when the fuse runs out.

The other learning which I hope will play out in the future, as it has in the past, is that it pays to be brave in times of panic such as these. If I was allowed to invest myself, which I am not, I would have no hesitation in deploying serious money into the market today, knowing fully well that prices may fall more tomorrow. And I would be standing there tomorrow to buy more of the same, till my money ran out. India is going to be a terrific stock market story for many years to come; even an intermediate bearish patch cannot shake that conviction of mine. At best, one will have to wait a bit for the returns to follow. That's alright. You are happy to put money in a bank FD and then wait for one full year to collect that measly 8%, aren't you? Then why does the stock market need to give you 20% every month? In the last one year, I haven't seen so many good stocks trade at such mouth-watering levels. Forget trading, avoid the duds, which were fuelled up by operators, just go out and buy those bluechips. They will deliver, even if there is a global market meltdown for a while, and if you are a bit patient you will be rewarded. But do remember January 2008, as history will repeat itself again in the future. Just that our memories tend to be too short and our greed too much.