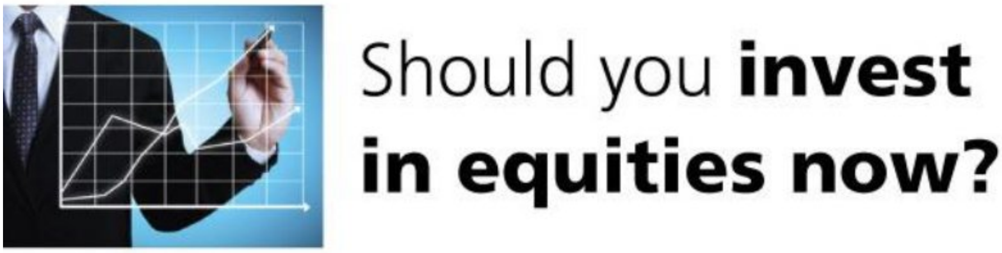
Should you invest in equities now?



Every time the stock market reaches an all-time high, many investors decide to defer investment in equities or look to redeem existing investments with an anticipation that they will be able to invest at a lower market level. A lot of this belief stems from the fact that conventional wisdom espouses the investment tenets of buy low and sell high. While it is natural for investors to think in this manner, it may not always be a wise decision to stay away from equities during market peaks as the absolute stock market level is often less relevant and the key is valuations. In other words - the current level of market may not denote the true value of companies forming the market.

Consider the example of the price of a buffet meal versus the value of the individual items in the buffet. While a buffet meal may seem expensive, if you do the math, given the wide choice that it offers, the total value of the individual items may be much more than the cost of the buffet. While this may not be an exact explanation of valuation of companies, we hope it explains why one must consider the value of the companies that make up the stock market rather than just look at the absolute level of the stock market.

So how does one compare the absolute the value of the stock market with the value of the companies that are a part of the market?

Typically, the stock market is a reflection of the current share price of the companies that form the market. Now, the current share price of a company is often linked to its past and current earnings. However, to determine the true value of the share price it is also important to consider the expected growth in the company's earnings. The reason is simple- a rational investor would ideally be willing to pay higher price for a company which is expected to grow its earnings at a higher rate as compared to one which is likely to grow earnings at a slower rate.

How does the current stock market level compare with current company valuations?

Our studies show that although the major market indicators (Sensex and Nifty) are touching new highs each passing day, their values are not as high, or at least they are not anywhere close to what they were during the last bull run of 2004-2007. Which means the companies might be valued less and there is more potential for growth in value.

Such a situation bodes well for investors as well as fence sitters. Not only could there be an opportunity to be able to invest when the value of the markets is lower, and a rise in markets being demonstrated; there is also sufficient optimism that the markets may likely to go up further.

So is it a good time to invest in equities?

Given the reasonable value of the markets and the expected improvement in performance and earnings of companies, the opportunity is tempting to say the least. What more, instead of burning your hands and stressing yourself on which stocks to invest in and when to exit them, you have the choice to invest

in equity mutual funds, which are well managed, have a proven track record history and professionally managed by experts to help deliver the best results.
While the going is good, it would help to remember that time spent in the markets and not timing the market is the key to successful investing. Stick to this strategy for your long-term financial goals.

Happy investing.

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*All the above calculations are done internally. The illustrations mentioned above are for information purposes only and should not be construed as an investment advice. It does not in any manner imply or suggest performance of schemes of L&T Mutual Fund. The recipient of this document should rely on his/her investigations and take his/her own professional advice. Calculations are based on assumed rates of returns on your investment and actual returns on your investments may be more or less. Annual recurring expenses have not been factored into the calculations and they could reduce the returns on investments. Past performance may or may not be sustained in future. Please contact your financial adviser before taking any investment decision.