

'The key will be to avoid losing money'

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SMART TALK/ Marc Faber

Jitendra Kumar Gupta / Mumbai March 12, 2007



Investment guru **Marc Faber**, also known as "Dr Doom", enjoys extreme events in the markets like manias, panics and crashes.

A contrarian at heart, his monthly commentary on investment opportunities and market psychology across global markets in "The Gloom Boom & Doom Report" is widely read.

The Hong Kong-based investor is the author of books such as *Tomorrow's Gold: Asia's Age of Discovery*, which highlights future investment opportunities around the world. Marc Faber shares his view on the Indian equity markets with *Jitendra Kumar Gupta*.

### **How do you read the current correction and pull back in the Indian equity markets?**

The market had risen from less than 3,000 points in 2003 to nearly 15,000 points recently. We had a 26 per cent correction in 2004, a 13 per cent correction in 2005, and a 30 per cent correction in May-June 2006.

So far we have declined by 13 per cent from the February 11 peak (as on March 5) and the question is obviously whether this is just a correction or the beginning of something more serious.

Based on the position of overseas markets and international liquidity, I am leaning toward the view that we are faced with something more serious.

**There are a lot of worries on inflation and rising interest rates in India. These could have a negative impact on the equity as well as corporate profits. In this scenario what is your outlook for calendar year 2007?**

It looks as if most asset markets around the world, including the Indian stock market made a high between November 2006 and February 2007. And whereas since 2002 the right strategy was to buy the dips, from now on investors should sell the rebounds.

Once the Dow is down by 10 per cent, I expect the US Federal Reserve to begin cutting interest rates and that this may lead to a sharp rebound in stock prices around the world.

However, I doubt that we shall make new highs. So, my expectation is for the present downturn to last for between one and three months.

This will be followed by a strong rebound, which will then give way to renewed weakness in the second half of the year. I may add that India, while having a great potential, is certainly not problem-free with inflation accelerating and a not particularly investor-friendly Budget!

**Would you agree that India is witnessing a secular bull run, which could last for many years or will it deflate?**

It is possible that India and also other emerging markets are in a secular bull market. However, we should keep in mind that India rose from the lows in 2003 to its recent high by almost five times.

Valuations are not compelling when compared to other markets and when compared to local interest rates. Moreover, even if the secular bull market story is correct, which I somehow doubt, big intermediate corrections or even bear markets can interrupt this glowing scenario.

**How do you see global liquidity going forward?**

Global liquidity, coming principally from the US current account deficit, is still there. But it is no longer expanding at an accelerating rate.

Moreover, we have some illiquidity that developed in the US sub-prime lending sector. This means, in my opinion, across the board tighter lending standards – leading to less liquidity. It is not the Fed that tightened liquidity, but the market place.

**What will be its impact on global stock markets in general and India in particular?**

When liquidity expansion slows down usually some problems occur in asset markets. Moreover, nothing boosts liquidity as much as rising asset prices. It is when asset prices decline that liquidity can vanish very quickly.

**What is your advice for the retail investor in India?**

My advice is to sell any rebound.

**Where do you think the commodity cycle is headed, especially gold?**

Since all asset prices including real estate, equities, bonds, commodities, art, and even the prices of mistresses increased in value since October 2002, I would expect in an environment of relative tighter liquidity all asset prices to decline – even precious metals.

**Gold ETFs have recently been introduced in the Indian market. Could you please share your experience and whether retail investors should look at them?**

I am still positive about gold and silver in the long run. However, a better buying opportunity should occur over the next three months.

**Do you see any particular investment themes, which can work over the next two-three years in India?**

I think the key will be to avoid losing money. I like cash and possibly bonds should do okay in India.

**Do you see Indian markets as over-valued compared to other emerging markets?**

I am not sure the word "overvalued" is correct, but certainly the market is "overstretched" and vulnerable to a 30 per cent or 40 per cent decline.

**In a rising interest rate scenario, how do you look at Indian real estate prices? And investing in real estate companies?**

There has also been a lot of speculation in real estate and I would be somewhat careful at this point. I would avoid real estate companies for now.

**Oil is no more boiling, but the opinion is still divided on its direction. What are your expectations for this year?**

Since I expect the global economy to slow down, oil may correct down to \$45-55 per barrel. Long term, I am positive.

**And its impact on Indian economy?**

Declining prices are moderately favourable, but since I expect prices to eventually rise significantly, I would think that it will add to the current account deficit and to inflationary pressures.

**Indian metal companies have acquired companies abroad recently. What is your view on the valuations and the synergies? How should investors look at these deals?**

I am not sure that these acquisitions are timely and wise. I would not buy these companies and focus on India, which has a higher growth potential.