WHAT THE MARKET TAUGHT INVESTORS IN 2024

In multiple pockets of the market this year, new trend chasers learnt some very old lessons

Abhishek Mukherjee
abhishek.mukherjee@livemint.com
NEW DELHI

"If everything on earth were rational, nothing would happen."—Fyodor Dostoevsky

Time: 5.30 pm, early May

Place: Pitampura, north-west Delhi

People wait anxiously in front of a roadside food cart. The long, long queue spills over from the pavement onto the street, leaving bikes, cars, cows and canines jostling for space on the narrow road. A few paces ahead, half a dozen vloggers are filming the cart and the surrounding chaos.

Across the road, some more YouTubers are dishing out raucous 'food reviews' for their presumably famished audience. Some poor souls, tired of the long wait, are reluctantly trickling out of the line, but many more are queuing up animatedly, resulting in the congregation getting bigger (and noisier) with every passing minute.

After about an hour of push-and-shove, you finally manage to get your hands on the Holy Grail. No, it was not some piece of gastronomic masterpiece whipped up on the streets of Delhi, but a humble vada pav with much to be humble about. The bread was soggy; the mint *chutney* lacked chutzpah; the mashed potato patty was an ode to mediocrity.

The only exceptional feature of the snack was its high price. And, not to forget, the 'viral' photogenic lady who sold it to you with a devastating smile.

Supply creating its own demand is a central tenet of classical economics. But if there is one force which is even more potent in creating demand, it is hype.

Just look at what happened on Dalal Street this year.

From FY16 to FY21, mutual funds, other DIIs, and individuals net infused around ₹40,000 crore on average each year into the equity secondary market. Today, SIP inflows alone stand at around ₹3 trillion every year. HT

JUMPING ON THE BANDWAGON

In investing, very few activities can match the exhilaration of boarding a hype train. The thrill of momentum, micro-bursts of dopamine and a galloping portfolio make for a heady cocktail. But the most important part of this game is not boarding the train but knowing when to get off.

Take the case of the top-performing stock group of 2024. With around 60% returns this year, the Nifty India Defence Index towers over every sectoral index as well as small and mid-cap peers. The standout script in the defence pack has been Cochin Shipyard, with year-to-date gains at a sizzling 130%. However, in the last six months, the stock has slumped 30%, teaching new trend chasers some very old lessons.

Cochin Shipyard soared to its all-time high of ₹2,977 on 8 July this year. It is currently trading around half of that level. Retail euphoria and manic volatility have even led to the stock being placed under stage 4 of the additional surveillance measures (ASM) framework, which imposes a price band of 5% for the stock and raises the margin requirement of clients to 100%.

The price band establishes the price range within which a stock can be traded, while the margin requirement is the amount of money an investor must deposit to take a position in a stock.

This arc has played out in multiple pockets of the market this year, from mid-cap to micro-cap names. A stream of rah-rah articles on a sector/stock, leading to a feverish rally, leading to more investors piling into the counter, leading to an even more furious rally...until suddenly, the profit-taking catches people unawares. Then a sombre realization dawns—the exit door is not wide enough to accommodate everyone.

Some 93% of over 10 million individual F&O traders on average lost ₹2 lakh each (₹1.8 trillion in aggregate) in the three years through FY24

And it is not that this herd behaviour is limited to newbie investors. A leading asset management company (AMC) launched a defence index fund in the middle of this year—at the height of the sector's popularity. It raised over ₹1,600 crore, the highest-ever fund collection by an equity index fund during the new fund offer (NFO) period. The NFO saw participation by nearly 250,000 investors.

The result? The fund's net asset value (NAV, or the per-unit market value of all its investments minus its liabilities) is yet to reach its face value of ₹10 per unit.

Take the case of another market darling of 2024—public sector undertakings (PSUs).

Companies like Oil India Ltd (OIL), Indian Railway Finance Corp. Ltd (IRFC) and Bharat Electronics Ltd (BEL) have provided stellar returns of 70-80% this year, but only to those investors who entered these names before the news cycle around PSUs peaked. If we look at the previous six-month returns, 18 of the 20 constituents of the Nifty PSE index are currently trading in the red.

As 'Big Bull' Rakesh Jhunjhunwala used to say, in the stock market, it's not important how long it takes; what matters is how long it lasts. Of course, this is not to say that these investments will never recover. Mutual funds, after all, are long-term products. And if price volatility makes you feel nauseous, perhaps stock investing is not your cup of tea.

But the probability of 'narrative' scoring over 'numbers' is the highest during bull markets, which means investors' 'bullshit radar' should be working overtime during this period. Many 'narrative' stocks have baked in phantasmagoric projections of revenues and profits. Even a slight miss on execution would be enough to collapse the pack of cards. As even a cursory glance at previous periods of euphoria would show, many 'hot stocks' never recovered at all (remember Unitech, RCom, HDIL, Manpasand Beverages, etc.?)

And for short-term investors, Mr Market's message is clear. If you really are itching to board a hype train, make sure to reach the platform early. Otherwise, it doesn't take much time for the giddy train ride to turn into one-way skydiving.

SECTOR WATCH

One of the top sectoral performers of 2024 has been pharma, which has maintained its post-covid momentum.

Strong earnings growth from pharmaceutical companies, combined with price-to-earnings (P/E) rerating, has made pharma one of the key themes that have played out successfully. There are two primary reasons why large players have performed well.

"Firstly, the generic drug shortages in the US have created opportunities, and secondly, recent government regulations for compliance with Schedule M and Good Manufacturing Practice (GMP) have provided a competitive advantage. These factors have disproportionately benefited larger players," Sreeram Ramdas, vice president at Green Portfolio PMS, tells *Mint*.

GMP standards, in short, aim to build quality into a product and was first incorporated in Schedule M of the Drugs and Cosmetics Rules, 1945, in 1988.

Another notable segment has been manufacturing, fuelled by India's strategic push to benefit from the China+1 supply chain relocation theme.

"Electronic manufacturing and semiconductor industries also stood out, capitalizing on rising global demand. Infrastructure and power sectors experienced significant investments, driven by government-backed initiatives aimed to enhance economic infrastructure," says Gurpreet Sidana, chief executive officer, Religare Broking.

Similarly, the capital goods sector benefited from the production-linked incentive (PLI) scheme, driving growth in industrials and engineering. Green energy took the centre-stage, with opportunities accelerating across solar, wind and electric vehicle (EV) ecosystems, while the residential real estate segment rebounded, propelled by growing demand for premium housing and increased urbanization, Sidana adds.

MALTHUSIAN MISADVENTURES

What do you think was the top-performing asset of 2024? Some micro-cap stock? Bitcoin? Real estate?

It was actually tickets for Diljit Dosanjh's pan-India concerts.

When the Punjabi singer announced his *Dil-Luminati Tour*, it set off an almost religious frenzy among fans. People rushed to book tickets online, but most were met with disappointment due to the deluge of demand. Which, in turn, set in motion the sordid second act of Malthusian scarcity—people reselling tickets in black.

Tickets were offloaded for twice or thrice their original prices, sometimes even more, and that too within hours of the official sale window closing. How many financial assets can boast of such a craze?

Something similar happened with British rock band Coldplay's India concerts scheduled for January 2025. Even tickets priced at ₹35,000 were snapped up in minutes. Soon after, they were being offered on resale platforms for multiple lakhs.

When this writer managed to attend Dosanjh's Delhi show (thanks to passes arranged by a friend), he was surprised to see the rush in the stadium. Many groups of youngsters were delightfully discussing how they snapped up tickets for ₹50,000-60,000 apiece.

And then, suddenly, mid-cap stocks trading at 100-PE or renewable energy stocks at 150-PE started to make some sense.

The most powerful force in the market is not business models or profitability. It is liquidity. When a lot of money chases a limited supply of goods (stocks, apartments, tulips, concert tickets, etc.), old-fashioned notions of intrinsic value fall by the wayside and price is the only reality. Or, as market old-timers are fond of quipping, *"bhav bhagwan che"* (price is God).

For Indian capital markets, the supply tap of liquidity has turned into a tidal wave. During the six years from FY16 to FY21, mutual funds, other domestic institutional investors (DIIs), and individuals net infused around ₹40,000 crore on average each year into the equity secondary market. Today, SIP (systematic investment plans) inflows alone stand at ₹25,000 crore per month, or around ₹3 trillion every year. Adding insurance companies, foreign investors, lumpsum investments and others would take the figure to an astounding ₹5 trillion or so. This far exceeds the roughly ₹2 trillion of annual primary market issuance spanning initial public offering (IPOs), follow-on public offering (FPOs), preferential allotments, rights issue and others.

It is this demand-supply gulf which is fuelling the market's flirtation with the stratosphere. The only hitch is that like most affairs, one party is having way more fun than the other.

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CASINO NATION

When the financial history of 2024 will be written, one of the biggest chapters could be the institutionalization of a gambling industry phrase—the house always wins.

With gambling prohibited in the country, domestic retail investors have taken to derivatives trading with a ferocity which would make medieval princelings blush.

India is not only the largest derivatives market in the world but is also chiefly retail investor-driven. As per a recent study by the Securities and Exchange Board of India (Sebi), 99.8% of total traders in the equity future and options (F&O) segment are individuals. Their track record, however, makes for doleful reading.

Some 93% of over 10 million individual F&O traders, on average, lost ₹2 lakh each (₹1.8 trillion in aggregate), inclusive of transaction charges, in the three years through

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WHAT

More than entry, it is critical to time the exit if you want to maximize your returns. That is an old lesson stock markets taught new investors in 2024.

AND

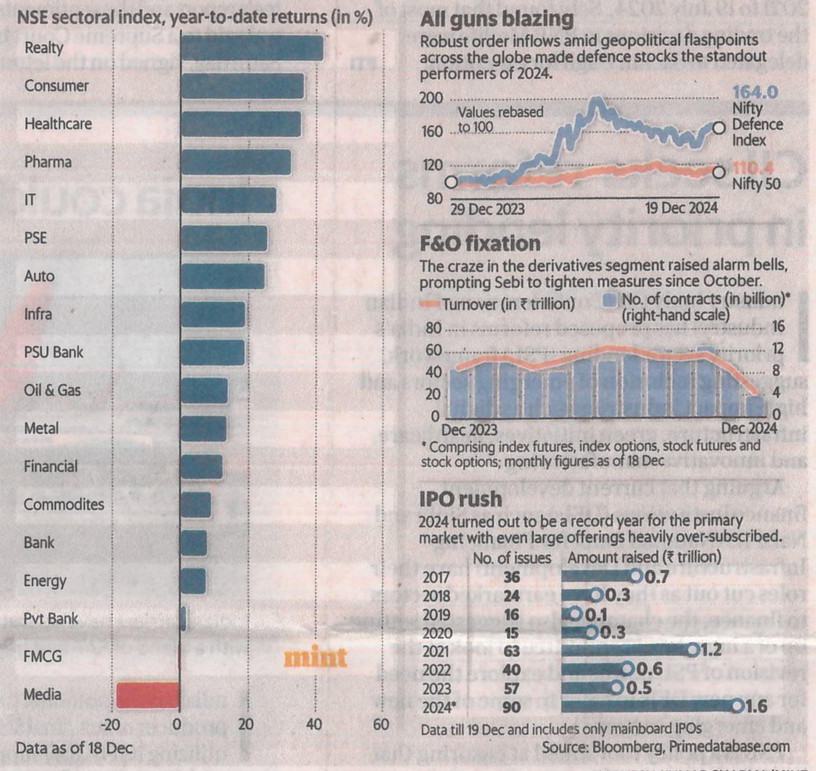
Liquidity is the most powerful force that drives valuation of stocks. If you had thought it was profitability or unique business model, you are mistaken.

NOW

The outlook for 2025 is confusing. Some experts predict the stock market momentum to continue while others warn of uncertainties that could play spoilsport.

WINNERS AND LOSERS OF 2024

The red-hot real estate market stamped its dominance on Dalal Street; banking and FMCG were conspicuous laggards.



Source: Bloomberg, Primedatabase.com

SARVESH KUMAR SHARMA/MINT

What market taught investors in 2024

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FY24. Over 75% of these traders declared an annual income of less than ₹5 lakh in FY24. More than 75% of loss-makers continued trading in F&O.

Have domestic investors become the poster boys of irrational exuberance?

"Market participants are chasing short-term returns with great fervour. Beyond F&O, the volumes on Indian crypto exchanges have increased nearly 4–5x, reflecting the short-sighted behaviour of market participants. In early 2024, many individual investors we spoke to were heavily inclined toward defence and PSU stocks. Now, many of these stocks have declined by 50–60% within just six months," Green Portfolio's Ramdas notes.

"Due to recency bias, new investors tend to extrapolate recent market performance into the future, often overlooking the valuations at which they are buying a stock. It is entirely acceptable to buy a stock at 60–70x P/E—as a fund, we do that too—but the potential future performance must justify such valuations," he adds.

HAPPY NEW YEAR?

With almost 13% returns year-to-date, 2024 is the ninth straight year of the benchmark Nifty 50 delivering positive returns. What are the chances that the momentum will continue next year as well?

A file photo of a bronze sculpture of a bull on the premises of the BSE building in Mumbai. REUTERS

Religare Broking's Sidana feels that while volatility may persist early in 2025, particularly in mid-January due to union budget expectations and ongoing global uncertainties, India's outlook remains robust.

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"The economy is projected to grow at a steady 6.1% over the next five years, driven by key sectoral contributions from manufacturing, digital transformation, and renewable energy," he says.

Some voices, however, are striking a note of caution.

Uncertainty and potential polarization resulting from looming changes and geopolitical uncertainty globally are likely to induce bouts of volatility in the domestic market, Anil Rego, founder and fund manager at Right Horizons PMS, tells *Mint*.

Inflation continues to be sticky. Growth in gross domestic product (GDP) moderated in the first half of FY25, though the outlook for the next two quarters is brighter.

"We believe the future of equity market gains rely on companies' ability to deliver strong and healthy profit growth. Looking ahead, we believe demand will play a pivotal role in driving earnings. However, the demand outlook remains subdued due to an uncertain global recovery, sluggish household incomes, declining consumption credit, and a slowdown in capital expenditure among BSE500 companies," he points out.

Overall, the gap between profit and revenue in FY24, which had been widening, is now starting to narrow. In the first half of FY25, there was a slowdown in profit in the high-growth sectors of FY24.

"Sector-wise, the slowdown is most noticeable in domestically focused industries such as autos, consumer services, paints, and cement. Moderation in earnings will likely impact the markets if the consensus estimates a higher earnings growth," Rego notes.

For a market so used to a steady supply of overpriced and overhyped vada pavs, this could be a bitter pill to swallow.