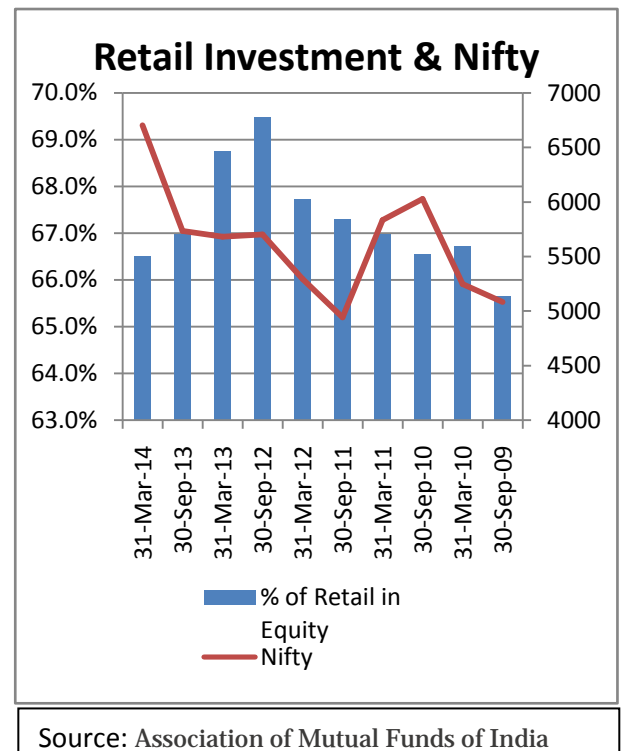


Contrarian Logic: Buy Now!

6th Jun, 2014

- Over FY05-09, annual equity inflow from households was 5% of incremental savings. Even if we assume half of if it now (as the incentives for mutual funds no longer exist) it translates into \$10 billion of retail equity inflows every year.
- Indian households have sold nearly \$8 billion (about Rs 48,000 crore) of equities in the last five years and equity exposure to total household assets is just 2%, which is among the lowest ever. Retail investors have been largely shifting their holding towards physical assets from the financial assets.
- Investments of retail investors in equities have been coming down from Sep '12 and in spite the market rising sharply in the last six months there is no rise of retail participation in equities.
- Retail investors are still either redeeming equity mutual funds or are switching to debt at current levels. Reportedly stock brokers are seeing net selling of direct equity holdings by retail investors. The rise in markets despite the above is a clear indication that FIIs, FIs, and large investors are buying at current levels.
- With fall in inflation, real interest rates have turned positive and are expected to remain so in medium to long term. It will lead to higher financial savings by households and more investible funds.



There is a very strong contrarian indicator and it strengthens the view of medium term upward move in the markets. We recommend retail investors to increase their allocation in Equity Mutual Funds (based on their risk profile) for medium to long term appreciation at these levels.

Our Top equity MF Recommendations:

	Fund	Net Assets (Rs Cr)	Returns %		
			1 yr	3 yrs	5 yrs
1	DSP Blackrock Micro Cap Fund Reg(G)	567.72	62.9	18.9	24.1
2	Franklin India Smaller Companies Fund(G)	378.73	61.0	23.0	22.8
3	Axis Midcap Fund	257.71	47.03	22.65	-
4	ICICI Pru Focused Bluechip Fund(G)	4677.48	34.7	15.2	18.2

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