

April 2, 2007

Market View

Use panic (if at all) caused by RBI's recent action to accumulate

The RBI on Friday (after market hours) increased the repurchase (REPO) rate at which it lends overnight by a 25 basis points to 7.75 percent from 7.5 percent and increased the CRR by 50 basis points from 6% to 6.50% in two tranches, the first on 14 April and the second on 28 April.

The latest move came at a time when things were beginning to settle down after F&O clearing and the start of trading for the next financial, may now again puncture the sentiment which was beginning to improve a bit. **We feel the market's knee jerk reaction may lead to a steep decline especially when the market opens on Monday morning. Investors can use this opportunity to accumulate stocks next week. Staggered buying is what we feel would be appropriate since it is difficult to catch bottoms.**

As mentioned in our earlier report of March 19, we feel the markets may start looking up starting mid-April, investors can choose to do staggered buying keeping a time horizon of 6-9 months atleast. However, if you get 30-50% gains in short period, better book it.

It is also important to hold part cash in the portfolio to take advantage of any opportunity which may arise on account of distress selling. We maintain our earlier view that in the **worst case scenario** (over short term - 1 month), the sensx may go down to around 12000 levels.

The fact that many small & mid cap stocks have corrected sharply and with promoters of many companies either willing to increase or increasing stake in their companies is the silver lining that we see at a time when the markets are surrounded by dark clouds. We have in the recent times, seen promoters of HB Stockholding increasing their stake through market purchases or promoters of Twenty First Century Printers convening Board meeting to approve issue of Warrants convertible into shares.

Rather than concentrating on large caps, we feel it would be more rewarding to selectively buy small and mid cap stocks. One should of course be educated and aware of the nuances/ risks associated with buying small and mid caps and whether investing in that category gels with the risk profile of the investor.

We believe 2007 will be the year for small and mid caps since the space looks hugely undervalued.

Happy Investing