Kaizen Nifty – The New Generation Nifty @ 20,500

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SEBI Registration No.
INA200015088
Friday, 27 November 2020

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Capital Markets Will Witness Many New Normal

After clearing the previous high of 12,430, Nifty has now attained a fresh **"Primary Bull Trend"**. There will be many new normal behaviours in the journey of Nifty from the previous all-time high of 12,430 to my **New Targets** of **17,500 (Sensex 59,000)** & **20,500 (Sensex 69,000)** by **FY 2025**. Some of the driving factors of Equity markets in future are encapsulated below.

- Sustained increased participation by **"Retail"** investors due to their increasing awareness with respect to stock markets and its benefits. More than 5 million incremental demat accounts were opened in FY20 over FY19 and almost 2.40 million demat accounts were opened in June quarter of FY21.

- **Younger population** having high proportion of disposable income as a part of their overall income. Now people get into job in their early 20s.

- **Increasing ability to take risk** on investments as individuals are learning to invest at much early stage of their life as compared to the old times.

- The falling interest rates and its inability to compensate for the **inflation adjusted return**. Inflation adjusted return is **"negative"** as of now. More inflows of foreign funds towards the emerging markets to benefit from the higher **differential interest rates**, including India.

- Innovative methods of Global Central Banks to combat economic crisis that creates **sudden burst of liquidity.** Printing of money makes it easy to access and at the same time, cheap money finds its way to places such as stock markets and real estates.

- **Increased market share** of Algorithmic Trades, High Frequency Trades and Automated Trades. The search for Alpha and the need to beat the competitors' return (even by a fraction of one percentage point) would require more and more automated trading.

- A **high PE (Price-Earning multiple)** may become new normal and the mean PE **"trailing as well as forward PE"** will shift upwards. There were days when 20 & 25 Index PE multiples were considered as dangerous. As we stand today, Nifty is trading at 35 PE and there is no discomfort. There are different reasons that can be attributed to the changing level of acceptable PE multiples at different points in time.

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- **A consistent growth in GDP** of India will lead to an overall positive trajectory of stock markets as well because the capital market is nothing but the reflection of the performance of a country's economic activity.

- **Volatility** will become the key ingredient of the stock markets, particularly for the stock markets of emerging economies because the market depth still remains weak for the stock markets of emerging economies. Even a small amount of flight of capital can cause relatively high level of damage in the market capitalisation of indices.

- Stock markets will face **wide fluctuations** over a short span of time which could look scary and unexplainable by the conventional methods. Nifty and Sensex fell about 40% from their peak in between January to March 2020. Nifty & Sensex made an all-time high in November 2020 and have gained about 75% from the lows made in the month of March 2020, in an extremely short span of time of about 9 months.

- Role of intermediaries has gone down significantly over time with more and more usage of technology and it will reduce even further going into future. Direct dealing with the ultimate service provider may become a reality over time.

- The role of idea/skill based value added services will increase. Investment Advisories, Portfolio Management Services and Investment boutiques will become common. The nature of fee paid will change from process based to skill based at a large scale.

- Stock markets may not remain a place for a soft hearted investor/trader. However; it may become even more rewarding for a disciplined & consistent investor who has the ability to absorb the short-term shocks and can remain steadily invested for long-term.

- One thing that has not change in the past and will never change in the future too, as long as economy is on the path of growth is, "Buy the Fear & Sell the Greed".

The Big Picture – Nifty Could Be Eyeing For 20,500

- Theoretically, if an index breaks the all-time then it is a set-up for a new Bull market to begin. Further, a Bull market cycle typically spans over 3 to 5 years.

- Nifty fell by around 4,900 points (Sensex 16,625 points) in between January to March 2020. Further, it retraced all of its fall and made a new high by clearing the previous high of 12,430 (Sensex 42,274). The **Primary Trend** has now turned to **Bullish**.

- As the Bull cycle typically last in between 3 to 5 years, there could be two possible (final) targets for the new Bull Run (cycle) over next 5 years viz. **17,500 (Sensex 59,000) and 20,500 (Sensex 69,000)**. These targets are derived from the congruence of fundamental (economic) and technical factors.

- As Nifty & Sensex have put the foundation of the new Bull in the month of March 2020 by forming their decisive lows, the final targets should be achieved before the end of FY 2025.

- In this new Bull run, there are few intermittent targets that Nifty will eye upon viz. **14,500 (Sensex 48,500)**, most probably **by FY 2022** and **15,500 (Sensex 52,500)**, most probably **by FY 2023**.

- The current Bull run gets negated only if Nifty breaks and goes below the recently made low in the month of March 2020. Therefore, unless 7,500 on Nifty (Sensex 25,639) is broken decisively, the new Bull run remains intact.

- The journey of the new Bull run towards 17,500 and 20,500 will not be a straight line. In between, Nifty will encounter **wild corrections and volatility**. On a net basis, it is expected to rise more than it falls and therefore, the net trajectory would remain up.

A 7% CAGR Of GDP Can Take Nifty To 20,500

- As per the empirical data, stock markets move around 1.5 times to that of GDP. Given the expected economic growth rate of anywhere in the range of 6-8% per annum, it would be reasonable to assume that India can grow at an average 7% for next 5 years. Given the above mentioned relationship, with an average GDP growth of 7% for next 5 years, Nifty has the potential to grow at a CAGR of 10.50% for next 5 years.

- For the projections of Nifty, consider two scenarios. **First**, Nifty does not follow the above mentioned relationship and grows just to compensate for the growth in GDP i.e. 7%. **Second**, Nifty respects the above mentioned relationship and grows at a CAGR of 10.50% for next 5 years.

- If Nifty grows at a CAGR of 7% for next 5 years, the projected target could be about 17,500 (Sensex 59,000). This coincides with the pattern target as well from technical analysis.

- If Nifty grows at a CAGR of 10.50% for next 5 years, the projected target could be about 20,500 (Sensex 69,000). This coincides with the 2.618 times retracement level as well from technical analysis.

- Accordingly,

  - Base case Nifty & Sensex Potential Targets for FY 2025 – 17,500 & 59,000.
  - Stretched Nifty & Sensex Potential Targets for FY 2025 – 20,500 & 69,000.

- The caveat remains that if there is any catastrophe like what we are facing now or something which is beyond control, the economic activities will be impacted (derailed) and accordingly targets will be adjusted. In case of everything else remaining unchanged, let’s prepare, plan and invest for the above targets. (Keep your risk under check)

Scenario Analysis For Nifty @ 17,500 & 20,500