THREE C'S THAT SHOCKED THE D-STREET

- Corona
- Crude Oil
- Credit Risk Aversion

"Personal opinions, pride, ego, and the desire to save face and prove you're right have absolutely no place in the stock market and will cost you dearly - so you'd better learn to objectively analyze your mistakes."

- William J. O'Neil

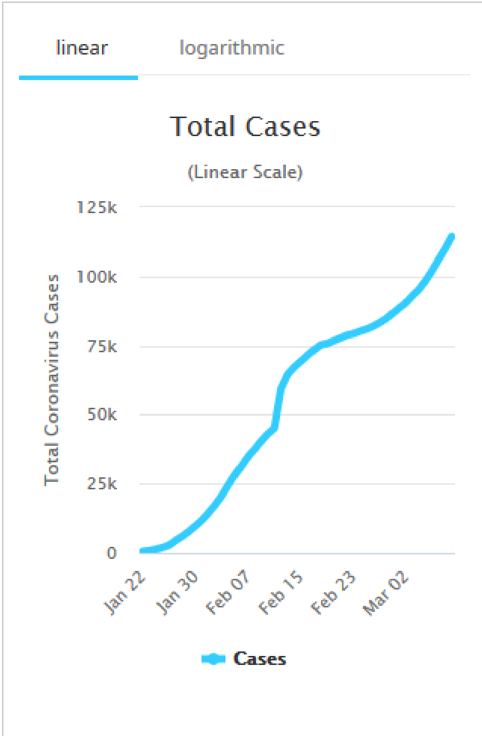
THREE C'S THAT SHOCKED THE D-STREET

The three C's (Corona, Crude, and Credit risk aversion) have made a deep crack on a well-paved D-street in the last two weeks. The INR has depreciated to Rs 74 versus USD and 10-year government bond yield has breached 6%. It's a tough situation in the game of investment. Many investors think that they have lost/losing this game of investment to these three C's.

In these conditions, panic is not the way out. At O'Neil, we are neither into trading (like T20 cricket match) nor into value investing game (like a Test match). To play and win an ODI game, one needs both; attack like a T20 game and at the same time, inculcate patience required for a test match. In ODI, we love the Mahi way (MS Dhoni strategy), especially to deal with tough situation like now. Do not lose the game over some news. One should go defensive, be in the game and wait. A time will come when you can hit runs and win the game.

COVID-19 is not widespread within India but global-spill-overs to Indian growth will be meaningful

COVID-19 continues to spread increasingly across the world. Though there are some signs of containment within China, the virus proliferates in other countries and global growth concerns get more acute with every passing day. The number of live cases in India are just around 50 and the impact is not severe domestically. But the impact on India via external channels is expected to be non-trivial. Loss in trade, tourism, and fresh investment can drag the GDP growth.



Crude price declined sharply with Russia and Saudi Arabia preferring volume over value strategy

Before the global markets took steps to contain the damage coronavirus has caused/is causing, the face-off between Russia and Saudi Arabia has turned ugly. Russia deciding not to cut oil production was followed by Saudi's price cut. This led to Brent crude price slip below $35 per barrel and stock markets declining 5–7% globally. This turned out to be a big shock to the U.S. as break-even for US drillers are somewhere in the high $40's per barrel, as per consensus.

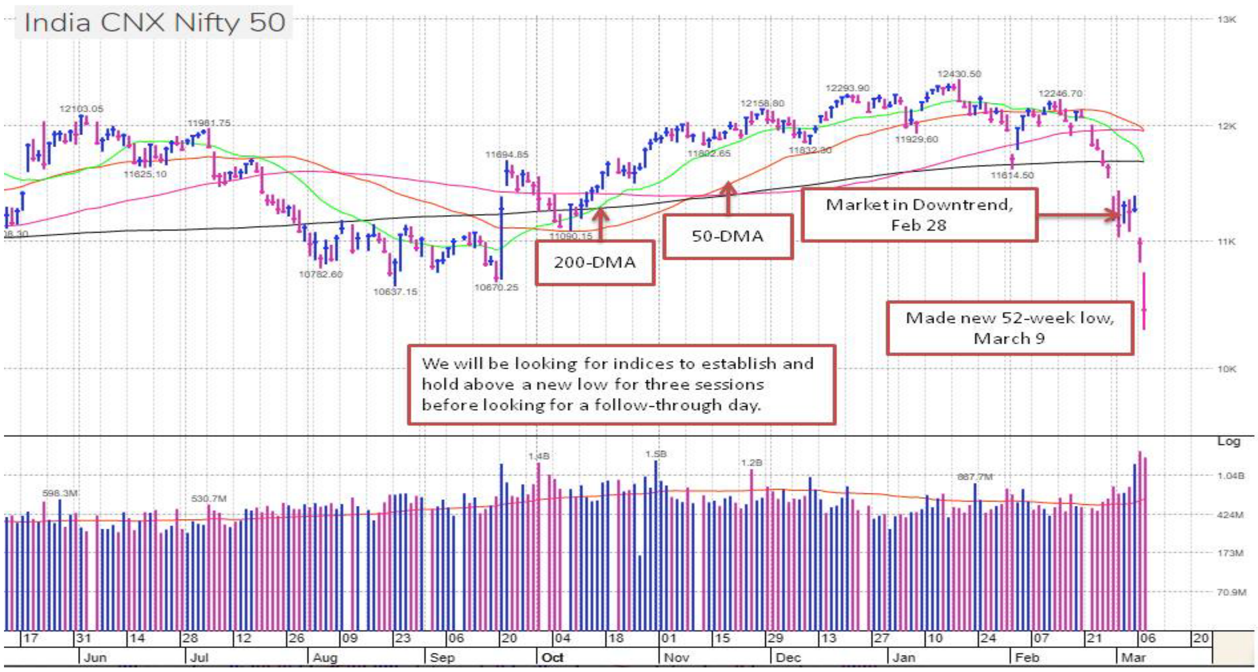
The lower crude oil price can be a silver lining for India. India imported ˜225 million tons of crude oil in 2018-2019. The bill was ˜$112B. If we consider the price below $35 per barrel India can save ˜$50B in crude oil import bill. Even if average price is $45 per barrel, ˜$30B can be saved. This can be a big positive in already stressed fiscal situation. Not only fiscal, but number of Indian companies who directly or indirectly use crude oil as raw material can see improvement in bottom line. Companies like Asian Paints and Berger Paints have their 50–60% of COGS linked to crude oil. HUL, Dabur, and Godrej Consumer have 20–30% of COGS linked to crude oil price.

Failure and restructuring of Yes Bank

As per the RBI's draft of the proposed restructuring plan for Yes Bank, SBI will subscribe to 2.45BM shares of Yes Bank initially at a value of Rs 10/share, effectively taking a 49% stake in the reconstructed bank. Increasing the authorized share capital of the bank to Rs 50B and altering number of shares to 24B can lead to further rounds of capital infusion in the bank.

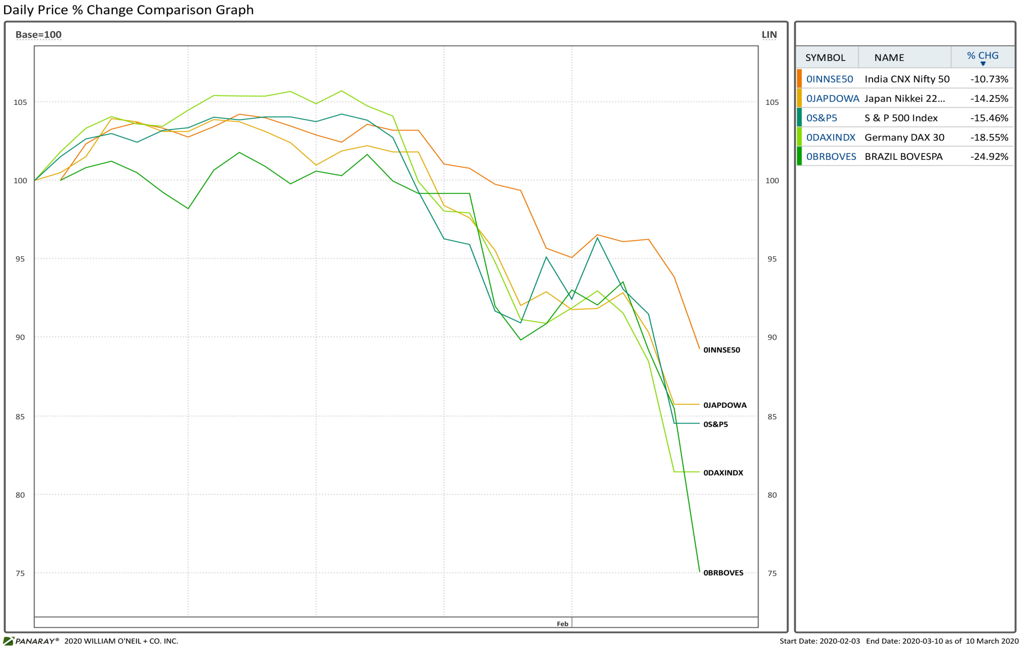
The developments around Yes Bank can have severe impact on the future of additional tier 1 (AT-1) bond issues by banks. There is a fear in the market that the AT-1 market will turn inactive as the AT-1 investors will be fearful of losing their entire investment, as has happened in the case of Yes Bank. Mutual funds owned by Nippon, Kotak, Franklin, and other 37 institutions and pension funds stand to lose thousands of crores with the RBI deciding to wipe out their AT1 bond investments in Yes Bank.

As an aftermath of blend of all these events in a very short time, Nifty declined sharply. According to O'Neil Methodology, we changed the market status to a Downtrend on February 28.



We continue to remain in a Downtrend and suggest a cautious approach until the general market conditions improve. Without trying to predict and decode stories, we will take what the market gives us and continue to monitor unfolding conditions.

Daily Price % Change Comparison Graph



Are the Cracks created by 3C's sustainable?

- There are visible signs of containment of coronavirus within China. Today, Chinese President Xi Jinping made his first visit to Wuhan since the coronavirus outbreak, as new cases of the virus slowed. Also China's production is expected to come on stream in the coming weeks. This can spread optimism in global trade and demand for crude oil can also improve.

- Several central banks around the world, including the U.S. Federal Reserve, have lowered interest rates to support their economies. This will make borrowing costs cheaper and could encourage businesses and households to take loans and spend, which in turn will stimulate the economy.

- Russia's Finance Ministry on Monday declared that Russia could sustain $25–30 oil for at least six years and as many as 10 years. But according to consensus, it is not a practical approach and Russia cannot sustain that longer as the cash crunch it is facing will not allow it to sell its important resource at such lower price.

- Also, Saudi Arabia had claimed in the past that their straight-up breakeven is $10 per barrel, which is not a logical figure for analysts. Aramco struggled to generate a profit in 2016 when crude was around $45 per barrel.

- As higher crude oil price is very important for Russia and Saudi, the solution should be seen tabled and crude prices can move higher.

- Trump is discussing to cut payroll taxes and provide relief to hourly workers suffering from the economic fallout of coronavirus. The President also said he was seeking to provide assistance to the airline, hotel and cruise industries, which are all suffering as Americans rapidly cancel travel plans. Any such move from world's biggest economy can be positive for investment cycle and markets.

- In Yes Bank's case, SBI is leading the way and RBI as well as government are actively keeping situation under control. The government and RBI have assured that the depositors will not be losing money, employees will not go out of job, and the administrators are setting a plan to revive the bank.

Investing Mistakes to Avoid in a Down Market

Mistakes are plentiful during a market downtrend. Avoid these common ones, and you will be able to keep your hard-earned cash intact.

-Buying before a base completes
During the recent market correction, many stocks pulled down to their respective 200-DMA and only some found support. To some traders, long-term support was a buying opportunity. The key to making money in the market is waiting until a base completes before buying. In most cases, stocks that come down to their 200-day lines do so amid signs of institutional selling. Wait the stock to prove itself more, and look for signs of institutional buying as the stock builds the right side of the base. Then you have a legitimate base.

-Buying every possible breakout
Bullish stock charts tempt investors all the time during down markets. Some growth names will hang in there with compelling charts. A breakout may work for a while, but it will likely be short-lived. While stocks that hold up the best during down markets can go on to be the next leaders, they still should not be bought during a [downtrend].

-Keep holding a stock or even averaging down

A stock trades at Rs 100 a share. Your cost basis is Rs 100. The stock heads lower, and you buy an equal amount of shares at Rs 80, lowering your cost basis to Rs 90. Then you add further at Rs 75 after it breaches its 50-and 200-DMA. The problem is that you're averaging down in a former leader that's under tremendous institutional selling pressure. You will be doing some serious damage to your portfolio. It rarely makes sense to buy a stock that has the potential to spiral lower before finally hitting a bottom.

-Buying low P/E stocks

Price-to-earnings ratio is a common valuation tool. But buying/selling decision based on P/E is not a prudent move. Expensive stocks can become cheap, but cheap stocks become cheaper in a down market. Trying to catch a stock "on sale" is fraught with risk. In many cases, stocks with low P/E ratios are suffering from weak fundamentals, where shrinking market share results in lower earnings growth. That's not something you want to see in a stock. Remember, some of the best merchandise in the stock market often sells at a pricey valuation due to strong fundamentals and bullish growth prospects.

-Stop paying attention

It is easy to lose interest when stocks are selling off, but market downtrends let high-quality names take a breather and eventually build new bases. When a new uptrend is confirmed, breakouts deliver the biggest gains. During a market pullback, try hard to make a list of stocks that held up the best. A few will show limited signs of distribution (heavy-volume selling) on the way down and accumulation (high-volume buying) on the way up. Focus on the most resilient names with the least amount of technical damage. They will generally be your best prospects.

Looking Forward

With all these situation to increase optimism in the market, stocks can show some recovery. It is important to understand that the market's selloff has been so sharp and deep that it is a reasonable possibility that we have a sharp bounce like that of today. One should not get deceived by these moves. Instead, wait for the market to show some strength and stage a follow-through day. Sharp, V-shaped recoveries are generally not constructive because most stocks can be hampered by overhead supply issues and that can cause a repulse. We will be looking for indices to establish and hold above a new low for three sessions before looking for a follow-through day.

Use this time to look for stocks to add to your watch list so you'll be ready to take action when the market starts a new uptrend. You'll find that year after year, winning stocks launch their big advances at the start of a new market uptrend and begin to come back down as that market uptrend starts to fade. We like the Mahi way (MS Dhoni strategy) stock that are able to hold gains and moving sideways when market is correcting. Stocks like HUL, ASIAN PAINT, DABUR, and ALKEM LAB are consolidating on the current market and holding their logical support level.

Research Team:

Mayuresh Joshi, mayuresh.joshi@williamoneilindia.com
Kongari Rajashekar, kongari.rajashekar@williamoneilindia.com
Rushit Sejpal, rushit.sejpal@williamoneilindia.com
Satya Narayan Panda, satya.panda@williamoneilindia.com

Disclaimer: William O Neil India Investment Adviser division, is one of the divisions of William O Neil India Private Limited, which is a company incorporated under the Companies Act 1956. William O Neil India Investment Adviser division is a registered investment advisor with the Securities and Exchange Board of India and through its online product, MarketSmith India intends to provide quality equity research material and information to its customers. The investments discussed or recommended through MarketSmith India may not be suitable for all investors and hence, you must rely on your own examination and judgement of the stock and company before making investment decisions. Data provided through MarketSmith India is for information purposes only and should not be construed as an offer or solicitation of an offer to buy or sell any securities. Information and discussions made available through MarketSmith India contain forward looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. William O'Neil India Investment Adviser division or its employees / directors or any of its affiliates are not responsible for any losses that may arise to any person who has made investments based on the contents of this document. Past performance never guarantees future results.

Analyst Disclosures: No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Disclosure of Interest Statement	Companies where there is interest
Analyst ownership of the stock	No

Registered office address: Technomark Building, A-4, NGEF Ancillary Industrial Estate, Graphite India Road, Mahadevapura, Whitefield, Bangalore 560048, Phone: + 91 80 67453802, Fax: + 91 80 6745381, Website: http://www.williamoneil.com/india/, For investor queries: queries@marketsmithindia.com For grievances: grievances@marketsmithindia.com; For compliance officer:compliance@marketsmithindia.com, Corporate Identity Number: U74999KA2012FTC066881, Investment Adviser SEBI Regn. Nos: INA200005125 valid till 11 July 2021.

OUR PRODUCTS

MarketSmith® INDIA

SWINGTraderIndia

AlgoSmith®

WILLIAM O'NEIL INDIA
Technomark Building, A-4, NGEF
Ancillary Industrial Estate,
Graphite India Road,
Mahadevapura, Whitefield,
Bangalore 560048,