'We see no reason why investors cannot make 20% per annum over the next decade'

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Ajit Dayal is a director of Quantum AMC, India 's first no-load mutual fund company He is an incisive India analyst and has literally watched the Indian investing market bloom into what it is today. Responding to queries posed by The Financial Express, Dayal gives insights into recent developments and happenings in the Indian and global economies. Excerpts

The Fed rate cut has been announced. Does this then improve the situation or outlook for India and the emerging markets?

The US central bank has cut interest rates from 4.25% to 3% in two tranches spread over a 10-day period. This indicates either that the Fed is clueless about what is happening in the real economy or that the data came in so negative at the end of January that they had to move quickly and try to flood their way out of trouble for the US economy. Whichever way you look at it, the news is not good for the state of economic affairs in the world. India, which has traditionally been a relative oasis of calm from global events like the Asian banking crisis or SARS, has made the unfortunate mistake of accepting short-term, P-Note money from unknown sources. We are now paying the price for this - and will continue to do so for some time till calm returns in the global economy. So, a cut in Fed rates may be good or may not be good for India in the short term but the fact that we have P-Notes is definitely a negative and I sympathise with the RBI, which has fought a lone battle since December 2003 to shut down these speculative flows of capital.

How long do you see Indian corporates returning strong earnings growth? There has to be a recess at some time?

Well, the 40% growth in profits that we have seen since 2003 is not sustainable. In 2003, we began from a low base and enjoyed the benefits of a positive global environment. But a 15% to 20% growth in profits for many companies is, in our view, sustainable for a decade. Having said that, there are many companies out there that will see a sharp decline in their profit levels.

Now that the RBI has not changed anything in the third quarter review of interest rates, what is your view on interest rate movement in the coming months? Do you see a relaxation? And what would be the impact if it happens?

The RBI is one of the few central banks in the world that is behaving in a responsible manner. The primary focus of the RBI continues to the creation of conditions for sustainable economic growth - which creates jobs - without letting inflation loose, and without seeing the currency run over by near term influences of capital flows. I read many reports that criticise the RBI, and maybe people need to recognise that amongst all the institutions that we have, the RBI is the one that strikes a good balance and many times errs on the side of caution. Caution is not a bad characteristic for banks. There are many Indian finance companies that could vie for the dubious distinction of leading us down the sub-prime, debt-ridden route that is currently plaguing the US and UK economies and the RBI, thankfully, is policing the banking and lending environment in India.

Fund houses have been reluctant in offering equity NFOs. What do you think this indicates?

There are many NFOs based on themes. Infrastructure is a hot theme now. Structurally, closed end funds have been in favour because of the limits on the expenses of open end products. Now, even this route is closed. India has no shortage of mutual funds. We have a severe shortage of institutionalised processes used in the stock selection by mutual funds that can help investors achieve sensible returns over longer time periods and across market cycles. Many fund house products are aimed at getting the sixes as if investing is a one-day cricket match. At Quantum we don't follow the "hit out or get out" approach. We always worry about risk and try to find ways to minimise risk and are willing to sacrifice some of the returns in the process. A good set of singles and fours can help win matches. But there are only a few fund houses that, in my opinion, follow this disciplined approach.

Overall, where do you see the markets levelling out? What, according to you would be a steady level of the market?

We prefer talking about individual stocks, as the BSE-30 Index has little relevance to how the team at Quantum Mutual Fund invests. If I were to hazard a guess, I would say that the Quantum Long Term Equity Fund does not own three of the largest five stocks in the Index and, as such is absent from 30% of the BSE-30 Index. However, an Index of 16,000 is possible on the low side. But we see no reason why investors cannot make 20% per annum over the next decade - which means making 6x your money in 10 years. Again, with a lot of singles and fours and some fairly steady batting.

What was the reason behind launching Gold ETF? Is there any special reason?

If you see a dollar bill, it says "In God We Trust". For many decades the central bankers were like gods. They created the magic of paper currency and we all stopped using gold as a measure of currency. But for the past 10 years the US Fed has begun undermining the value of the paper that it prints. Alan Greenspan printed a chunk of paper and flooded the world with dollar bills since his 1998 rescue of Long Term Capital Management, the failed hedge fund that would have shut down some of the largest finance companies in the world. Well, those same finance companies are now about to be wiped out because of the aggressive loans they made to the US housing market. And his successor is also flooding the world with dollars. The more dollars - or any currency - you print, the less that currency is worth. A plate of samosa used to cost Rs 1 when I was in college in 1980. Today, that same samosa costs Rs 20. And the samosa is not larger by 20 times! Gold was $850 per ounce in 1980 and it is $920 today. I am not suggesting that gold will increase 20x in price to match what happened to the price of samosa or that it will match the surge in property prices. But neither do you expect the price of samosa to decline to Rs 1, do you? I cannot give you a target price of gold because I have none. I think of gold as insurance. People buy insurance so that their families can get some benefits if, god forbid, they die. Similarly, you should think of gold as an insurance for your portfolio. If you invest in stocks or mutual funds - which you should - think of gold as the required insurance. When stock markets decline, gold has - in the past - seen an increase in price. We have three products now: the Quantum Long Term Equity Fund for investors wishing to earn long term returns, the Quantum Liquid Fund for the excess cash that people have from time to time, and now the Quantum Gold ETF for the insurance that any portfolio requires.

What advice would you give to investors as such, with regard to the investing strategy in the coming days?

There is a lot of uncertainty out there. And events in India like the budget and the political posturing prior to the elections will add to that uncertainty. Investors must continue to educate themselves and make informed decisions. Avoid fashion, avoid following the crowds, and never gamble.