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**The Budget, Mr Chidambaram and the Ides of March**

A suave Mr Chidambaram with his goodies concerning personal income taxes and qualified growth impetus for various sectors though initially pushed the market up but could not really help it sustain at higher levels. No prizes for guessing, the party pooper is the ever rising crude prices. Of course, Mr Chidambaram did chip in with his budgetary provisions.

Normally, not April but March happens to be the cruelest month for the stock market. In the last 14 years since the Economic Reforms began, the market has gone up only thrice and the rest 11 years it fell. Only in 1992, 1998 and 1999 it went up and in all the other years it went down. Thus, the odds were very much in favour of a fall in this month going by the historical data. As such, given the stratospheric levels (as it appears now) the market was looking for a trigger to correct itself. Especially, the midcaps.

While Mr Chidambaram out of compulsion or otherwise stuck to his NCMP (National Common Minimum Program), the Budget he came up with after so much of media hype was a double edged sword. True, he did provide for the rationalization of personal income tax rates, he did gift us with a lot of irritants: primarily the Fringe Benefit Tax, Reduction in depreciation rates, increase in surcharge over corporate income tax. To add to this is a totally uncalled for Cash Withdrawal Tax. No doubt, to be fair to him, he did reduce the corporate income tax levels to 30% at par with personal income tax rates but he raised the surcharge to partly offset his goodie. Mind you, this goodie is only for Indian companies.

Apart from these budgetary provisions, the overall budget this time looks more like a revenue expenditure oriented exercise. Of course, he takes refuge stating that the NCMP itself is a revenue expenditure oriented program. What is really hurting is that he has actually provided lip service to things like infrastructure—if you look closely, even by his own admission, capital expenditure has drastically gone down. These definitely do not augur well in so far as the Budget supposed to give a fillip to further growth in the economy.

The initial reactions to the Budget has been overwhelmingly positive both from the industry captains as well as foreign investors. However, soon reality check set in. It would be difficult for the corporates in India with so many negatives when they try to maintain their earnings growth. Even without these Budget blues, the crude price rise in itself is capable to jettison the growth engine for a country like India. Add to that the price hikes in whole host of commodities including steel. This is surely going to affect the profitability margins of companies.

The two years of runaway bull market has lulled us into thinking that Indian economy has moved into a different growth momentum and it would continue rising despite so many odds. We should keep one thing in mind that the current rally is liquidity driven one—liquidity provided by the global investors in Indian equity market. The point is that so long as this liquidity continues to flow in the party can't face any roadblock. Already, there are signs of that liquidity tapering off a bit but it is too early to call the end of the Bull Run.

There are deteriorating signs visible on technical charts that may affect the market performance of so many highly valued companies. What we need to see is how the market reacts to March and June quarter results. Chances are there would be a lot of volatile movements before any major fall happens.

Also, interesting is another statistic that points out that hardly any emerging markets have performed three years in a row. Thus, once again the statistical odds are against our markets playing an encore even this year.

However, one silver-lining is that since the Ides of March are so heavy on us, April tends to be good except on few occasions like 2003 when the spillover effect of March was even more pronounced in April. Chances are we are going to see a rally in April, which might even begin one of these days.

For short to medium term players, a better strategy would be to book periodic profits as and when opportunity comes your way. For long term investors, take a dispassionate look at your holdings and see if the valuations are still reasonable and there is ample room for further growth else consider booking profits for, as indicated earlier, the party may not last long.

However, this is not too suggest that the long term Indian Bull Market story is over. That is going to be there but emerging markets like ours are prone violent corrections on its way to totally unfolding the great Bull Market story. If you see large part of your profits evaporating that might produce a mental discomfiture, and so long as you are prepared to withstand that with full conviction in your portfolio constituents you can remain invested through and through.

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