Bulls Bears and Other Beasts

Author: Santosh Nair

Book Summary

Are you a bull or a bear when it comes to investing? Do you know what these terms mean? You must have heard these oft-quoted terms in famous Bollywood movies and OTT series, tales which unfold the many mysteries of the Indian stock market, also known as Dalal Street. Having a chequered past of over a century, Dalal Street has had its fair share of multi-crore scams, investors who have turned into celebrities and a bevy of eccentric characters who have coloured the markets in their own distinctive style. Santosh Nair's Bulls, Bears, and Other Beasts - A Story of the Indian Stock Market attempts to chronicle this narrative in a fun yet informative manner.

Author Nair is known for being the Executive Editor at CNBCTV18.com and brings to the engaging tale an experience of over two decades in business journalism. Having begun his career with Business Standard in 1997, Nair has essayed the role of a stock market reporter with aplomb and his ringside view of the market is beautifully portrayed in Bulls, Bears, and Other Beasts. He has also been the author of a daily column titled 'Street Signs', which was known for documenting the major deals of the day, along with market trends and, during his stints with Economic Times and Moneycontrol, Nair helped foster vibrant newsrooms which demystified the market for the common people of the country.

Nair's book rests on the shoulders of the fictional narrator Lal Chand Gupta, who brings to readers a variety of realistic stories while recounting the history of the Indian stock market. The book chronicles the events of the stock market, starting from 1998 till 2017, when the book was published. The narrative takes the reader through Lala's tale, beginning from his troubled childhood and meandering through a boring accounting job which then led him to the murky world of Dalal Street. Given that the book recounts events beginning in 1998, readers find themselves gaining sharp insights into the pre-internet era of the stock market, a period which was known for insider trading and dubious operations, along with the possibility of earning unprecedented riches. Along with being an entertaining take on the market of yore, Bulls, Bears, and Other Beasts is also a recollection of the Street's past and as is often said, “Those who do not remember the past are condemned to repeat it.” Therefore, Nair's treatise is both a reminder of the past and a lesson into the psyche of the market, one that new age investors would do well to remember.

Key takeaways

- The value of a share depends upon investors' perception regarding future earnings rather than the past performance of the company in question
- While the market does move on sentiment, it is still unemotional, meaning investors should practice rational and logical decisioning while investing
- A fundamentally strong business, with robust management and promoter teams, is capable of handling and overcoming difficult situations, making it imperative that you do not write off a good business due to a single setback
- In stock markets, patience is a core virtue while dealing with underlying sentiments
- For investors keen on long-term decisions, it is best to ignore the short-term movements of the market, given that the street has been known to overreact to both positive and negative triggers
- When bull runs are fueled by positivity and irrational exuberance, you should keep an eye out for the forthcoming steep fall
- When you find yourself making money from shares quickly and easily, it is possible for a market crash to be right around the corner

While Nair's book is slightly dated, it is an excellent take into the psyche of the market, especially in its formative years, thereby offering you robust insight into how things and traders functioned over the last several decades. In addition to being a treasure trove of information about the past of the domestic stock market, the book is also a cautionary tale about when to avoid markets and how to invest in a manner wherein you are primed for optimal returns. Add to it the fact that the book brings forth aspects through the gaze of a fictional narrator, and it also becomes an extremely enjoyable read, especially for stock market enthusiasts.

Bulls, Bears, and other Beasts

Lal Chand Gupta recounts his stock market journey from humble beginnings as a clerk to becoming a significant operator, mirroring the volatility of the Sensex. The narrative unfolds with gripping tales of falls and peaks, captivating readers with the action and evolution of Indian stock markets. Across 496 pages spanning over 40 years, the story reads like a thriller, revealing the harsh realities of D-street's boom and doom. During his time in the ever-changing market, Lal Chand also discovers that the market is not solely governed by Bulls and Bears. Rather, it also encompasses a bevy of other formidable beasts, with non-financial means, who form alliances with promoters, financiers, and bank officers in an attempt to dupe the unwary investor

Advice to heed

When investing in stock markets, you will come across a variety of stocks – some which are fundamentally strong companies and others which may be purely momentum buys capable of offering you robust returns in the short-term. If you are keen on curating a portfolio for the future, it is advisable to invest in blue chip stocks, which have stood the test of time, have a strong competitive edge and a loyal customer base, as well a solid management team at the helm, as these stocks tend to perform magnificently over time. Such stocks should not be traded mindlessly – rather they should be set aside for your far future or even your future generations for it is with time that these stocks depict their true value and quality. And if you are a trader, you should have a strong perspective on the maximum loss you are willing to face – once you decode this figure, it is important to stick within that range to avoid unprecedented loss. Just as you do in a casino, play only as long as you have coins in your pocket – it is better to cut your losses and move on, than to go into debt in an attempt to recoup your losses. Finally, while the company you plan to invest in may be excellent, remember that your timing should also be right – purchasing a stock while it is at its high point will only result in reduced profit at the time of sale.

The concept of short-selling

It is simpler for a trader to purchase a stock with the expectation of its rise than to sell a stock and anticipate its decline. When you buy a stock at INR 100, the worst-case scenario is that its price drops to zero, resulting in a maximum loss of INR 100. While it is unlikely for a stock to reach zero, short-selling a stock at INR 100 exposes the trader to unlimited potential losses if the stock price rises. A trader going long on a stock can maintain optimism even if the price falls to INR 90. Conversely, those short-selling at INR 100 may feel uneasy once the stock price climbs to INR 110. Going against their natural inclination, many short-sellers are uneasy until the price drops below their selling rate. This is why it requires considerable courage for a trader to take a short position, especially when the market can erase gains built over months in just a week. Therefore, if you are keen on trading, always focus on attaining positions which match your risk appetite and view of the market, rather than being influenced by the moves made by other market participants.

IPOs – Yay or Nay

If you have been tracking the market, you would have read about or seen initial public offerings by major companies last year that ended up eroding investor wealth to a large degree. Separately, IPOs by select other companies ended up earning huge returns for investors, especially in their early days of trade. Since the inception of IPOs on Dalal Street, these beasts have given investors grief – while some turned out to be liquidity eaters, others which performed magnificently upon listing, ended up becoming sources of liquidity, by bringing new investors into the fold. Therefore, whether or not to invest in an IPO should depend on your investor profile, as well as the fundamentals and technical aspects of the company, rather than the euphoria or the negativity surrounding the market or the issue.

For the new age investor, every day in the market is a learning opportunity as it shows you a variety of integral aspects, beginning with the fact that the only thing constant about the market is its ability to change on a whim. By partaking of Dalal Street's colourful history, and understanding the lessons ingrained therein, you will be better equipped to deal with the dance of the market, thus making it easier to prevent potentially loss-making scenarios.

The one thing that all books and movies on the stock market tell us is that equities have the potential to make you both a king and a pauper. When it comes to investing in equities, making and losing a fortune can happen in the snap of a finger. Then how do you, as a retail investor, ensure that you can benefit from the growth potential of equities while limiting the risk of loss. The answer lies in starting a Systematic Investment Plan (SIP) in an equity or hybrid mutual fund scheme of your choice. Through an SIP, at periodic intervals, you can invest a fixed amount of money in a mutual fund scheme that gives you exposure to equities. Since you are investing at fixed intervals you are able to buy equities during market ups and downs. This reduces your overall cost of acquisition over the long-term. More importantly, the periodic investing also ensures that you stay invested and don't let market volatility impact your ability to make optimal decisions. This way, you can benefit from the upside potential of equities while taking care of the downside.