BOOM! BOOM!

BY

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> "Speculators may do no harm as bubbles on a steady stream of Enterprise. But the position is serious when enterprise becomes a bubble in the whirlpool of speculation If the capital development of a country is the byproduct of the activities of a casino the job is likely to be ill done.
> John Maynard Keynes.

The skyrocketing force of the equity upsurge in early 1992 was unbelievable, unforgettable and unique both in its magnitude, amplitude and pace. Even veterans in the market could not have imagined such an occurrence which usually is seen only once in a person's "financial" lifetime. The market experiences frequent ups and downs cyclically, and 1991 was in fact the "ripe" and right time for the commencement of a proper bull phase.

Cycles of TEJI (upsurge in prices - Bull Market) and MANDI (depressed prices - Bear Market) usually occur every 5th to 6th year. The last bull phase was witnessed in 1985, during the tenure of Mr. Vishwanath Prathap Singh as Finance Minister. Ironically, he was also responsible for reversing the same when he withdrew the possibility of convertibility of the non convertible portion of the RELIANCE "E" and "F" series debentures. If one goes back yet another 6 years, Teji occurred in 1979, when we witnessed the resurrection of the Late Indira Gandhi's regime after the fall of the Janata Government. A graphic profile of the Teji(High) - Mandi(Low) behaviour of the BSE Index is presented in Exhibit-A.

It is interesting that the maximum depressions and lackadaisical market moves have been between these 6 year cycles. 1988 was the year when the BSE sensitive index touched and hovered around 400 (Four hundred only)! Let us hope that 1994 does not witness a yclical dip of such m[illegible]ava[illegible]ide

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We shall now analyze the factors that contributed to the Boom. A majority of people visiting Dalal Street are eternal optimists who firmly believe, that the Indian Stock Market, being perpetually deficient in floating blue chips, can only move upwards. All that is required to enthuse such personalities into frenzied buying is a leader or a "Sheetal" Pied-piper to lead this flock of sheep (wrongly called BULLS). In the last and terminal phase of this bull cycle, every person in the street, offices and dinner parties was talking of nothing but the stock market and boasting about the "quick buck" which they made or was being easily made. People bought irrespective of the celebrated and indicted Price - Earnings ratios (P/E ratios), earnings per share and ultimately without using common-sense. As Lord Keynes had said about investor's behaviour in Stock Markets " The heart knows reasons which reason does not know". Once again the emotion, sentiments and money empire building fantasies and dream came to fore - decision making was based not on professional inputs; but sheer intuition, impulse and instincts and above all the pied-piper's moves, utterances and actions.

It was at this stage when BSE index was 4500, that SBI Magnum Multiplier of 1990 touched a high of Rs.180/-. One shudders to think of the gullible genuine investors trapped at this price, into buying something which was freely available in unrestricted quantities at par (i.e. Rs.10/-) from SBI until November 1990 The net asset value of the magnum (at it's peak price) was not over Rs.55/-. Rumours of PSU investments by CanBank Mutual funds pushed their prices to over 7 times their par value eg. Cangrowth was priced at a peak value of Rs.80/-

It is interesting that though the BSE Index had come down to a low of 2678 in July 1992 from the peak of 4467 in April 1992, SBI Magnum Multiplier had come to a low of Rs.33/- from the peak of Rs.180/- and Cangrowth to Rs.22/- from Rs.80/-. Thus the individual scrips are now available at 25-30 %

not really in operation, when the 'Teji' was in motion and how 'Mandi' had laid the truth threadbare in front of the stunned investors. There may be few cases where the extent of the fall in prices of the scrips from their respective peaks is commensurate with the extent of decline in the BSE Index - indicating that these shares enjoyed an upsurge alright but were supported even then and also now by sound fundamentals for a good, if not full, part of the rise.

When Mr. Manmohan Singh presented his first budget in July 1991, no one imagined how he would liberalize the Indian Economy in February 1992. But surprisingly the beginnings of the boom began in August 1991 coincident with the devaluation of the Indian Rupee.

A lot of Mandi (Bear) operators began to feel that it was the right time to begin selling. At each 500 point rise in the BSE Index, the bear felt confident of selling more until he could "bear" the difference payment no more. This was the painful payment of difference at the time of fort-nightly settlements in "A" group shares (OF forward trading).

A lot of investors also executed wrong sales between October 1991 and April 1992 - every sale felt like a blunder, because the spiraling of prices felt limitless. In early 1992, began rumours of foreign money (accounted or unaccounted ?) being used for massive purchases.

The conflagration really occurred with the budget of 1992 when unbelievable liberalization, privatization and welcoming of foreign companies occurred as never before into the Indian sub conti

It is difficult to unravel the multiple knots in the confused ball of multiple strings which was created by an intermingling of