International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 05 Issue: 02 | Feb - 2021 ISSN: 2582-3930

Change in investment strategies and Product valuation during Covid19

Lakhansingh Jayramsingh Pardeshi
Keraleeya Samajam (Regd.) Dombivli's Model College

---***---

Abstract— The coronavirus pandemic has spread all over the world, affecting both the health and economic sectors. The aim of this research paper is to observe the change in investment strategies in the stock market during this pandemic and what is the real valuation of the stock? This research includes data of daily closing stock prices and volume of stock trade during this pandemic months before and after. The current research has both theoretical and practical implications and the findings strengthen the efficient market hypothesis. The practical implication is that investors should be careful when choosing a stock to invest. What choice should Investors make before choosing stock, which sector should the investor target? This research also focuses on the most significant issue in investment management is stock valuation models and making decisions on stock trading accordingly.

Keywords—*Pandemic, Covid19, Stock Market, Investment, Strategies,product valuation*

I. INTRODUCTION

COVID-19 is a disease that only appeared in the public's alertness within the last few months but has created horrific damage to the world market. It has already sickened almost a million people and killed several thousand people and enforced closing schools, factories, and disrupted supply chain, as a result, everything stopped working. Also, all countries shut-down their borders and traveling without any purpose is prohibited. The world is dealing with the virus which is growing stronger day by day. There is a huge economic loss for thousands of businesses because governments ordered to shut down businesses as a result people staying at home to stop spreading the pandemic. Many companies have financial risks and their value getting down, the most vulnerable companies during the crisis are weak companies which just entered the market and also heavily indebted businesses which have obligations. Even though there is a downturn in the market, there is a place to flourish which means that you can make a profit if you have a good strategy. By analyzing the market, we advise that it is a good time to consider different factors and strategies to invest in the stock market.

1. Do not time the market – Predictive analytics doesn't work

It is not at all commendable to time the market during a crisis or a pandemic. For instance, take the case of 2020. It has already established itself as a volatile year with benchmark indices taking several turns at various points. It is not feasible to predict when the next market rise or fall would take place. The stock market tends to take a roller-coaster ride when crises loom large as such, trying to time the market at such moments is not a wise move. The prescribed course of action is to keep investing moderately in a staggered manner, sit back, and watch.

2. Diversify your portfolio – Both across stocks and other asset classes

Diversification of a portfolio is the key to tiding tough times. That said, to safeguard your wealth during a crisis, it is essential to diversify your portfolio both across stocks and other asset classes. As things stand, a diversified portfolio is your best bet at pulling through a crisis or pandemic. To that end, there are certain equity and debt investments that offer attractive opportunities when analyzed from medium to long term outlook.

3. Reallocate your portfolio – Consider your financial goals, existing investments, and reallocate

When crises loom over the market, it is your responsibility to re-assess your financial goals and existing investments to plan a reallocation strategy. The main objective of this rebalancing strategy is to align your portfolio risk to the level you deem reasonable. The core objective of reallocation is not along the lines of maximizing returns, but rather to find out if your portfolio's expected performance is proportional to your risk appetite. Therefore, it is essential to reconsider your financial goals and risk appetite to reallocate your portfolio.

4. Go for quality stocks – Add stocks having sustainable growth potential; avoid cyclical stocks

Quality is always your biggest asset as an investor. You can leverage it by adding stocks having sustainable growth potential, and also by avoiding cyclical stocks. Apart from helping you ensure a handsome Return on Investment

(ROI), such quality-focused investment will also protect you from the brunt of another market crash. As an investor, it falls on your shoulders to formulate strategies to make profits and, at the same time, protect your investments from unmitigated drawdowns.

5. Hold some liquidity – Always keep a buffer

Holding some portion of investment in cash is an integral part of a good investment strategy. It will become a buffer against any unforeseen events. The retained liquidity also serves two more purposes: it helps protect your overall capital, and also allows you to tap new investment opportunities as and when they emerge. For instance, you can take advantage of deep market corrections or when some stock valuation is very reasonable.

Final Note

There may be numerous other strategies along the same lines, but the ones mentioned above are some of the best tried and tested strategies with empirical backups. You see, investment strategies are important as they enable you to make a calculated move. In the meantime, you need to cultivate patience and discipline and back up your strategies with intensive research. A profound understanding of the market and its dynamics also works in your favour. The key to making it big is a strategic mind coupled with patience and discipline.

PRODUCT VALUATION

The M&A market is alive and well, though operating slower and more cautiously than it was three months ago. Unless your company sells groceries, medicine, or PPE, your business is probably off from pre-COVID-19 levels. Everybody is being hit, and everyone is in it together. Buyers are well aware of this and are adjusting their thinking based on it. These days, buyers' views on business attractiveness and valuation depend on the industry being considered. Here are some categories are as follows:

Category 1:

Companies that are down with a long road back. Think of suppliers to the restaurant, commercial aircraft, and hospitality industries. These businesses are being penalized in their valuations, with most being reduced by 20-30% or more in some cases.

Category 2:

Companies whose business dropped during the lockdown, however, will ultimately return to normal, but not for 6-12 months. Industries such as construction supplies, automotive, and capital goods. Buyers are looking at these companies and adjusting valuations somewhat (5-15%) to account for the time before full recovery.

Category 3:

Companies that were temporarily hit by the lock down but should rapidly return to normal. Industries like orthopedic supplies, plastics and packaging, and home furnishings. The valuations on these businesses are holding steady, though these deals have been delayed somewhat until lock downs have been lifted.

Category 4:

Companies whose business is unaffected by the lock down. Industries such as water treatment, alternative energy, and recreational products. These companies are seeing an increase in valuations (5-10%) as they appear stronger and safer than ever in the sea of turmoil.

CONCLUSION

The outbreak of coronavirus does bring new investment opportunities to investors although it has some negative impacts on the global economy. In this report, we developed a seven-step investment strategy to source good deals to invest in. Based on our strategy, we first took a close look at several industries in which there might be potential growth due to the pandemic. To figure out whether they are long-term or short-term investment targets, we tried to calculate the proportion of the cost of goods sold in total revenues to analyze the quality of their business models. After considering the type of their products and services, as well as a business model quality, we identified whether the growth of those companies was a result of the revolutionary or evolutionary innovative purpose of the business, which is important to the investment time horizons.Even if the growth in some industries begins partially due to the specific pandemic situation, there might be consistent growth in the future considering the revolution that some companies generated under such a difficult time. Also, we would suggest investing in stocks that got cheaper from the market crash and had a good growth rate before the pandemic.

REFERENCES

[1] https://www.google.com