



**DIMENSIONAL
SECURITIES PVT. LTD.**

Demystifying Markets :

Pre & Post Budget

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We have done an extensive study of the market performance 31 trading days before the budget, on budget day and 10 trading days after the budget. The key reason for doing the study was to see if the beliefs about the market performance around budget time are true statistically or they are mere myths.

Belief 1 : There is a strong perception in the market that we always have a strong pre-budget rally.

Belief 2 : There is a strong perception that the markets on majority of times falls after the budget.

We have looked at the data for the last 15 budgets, that is, the time since the reform process started in India. The following table indicates whether the returns were positive or negative at different time periods before and after the budget.

Please note that the time periods indicate cumulative returns for that period. For example, in the 16 day period, the return is the total return for 16 days prior to the budget day.

In case of post-Budget returns, the 3 day return is the total return on budget day plus the next 3 days.

TABLE 1

Year	31 TDB	16 TDB	11 TDB	6 TDB	4 TDB	3 TDB	2 TDB	BD	1 TDA	3 TDA	10 TDA
2004(F)	N	P	P	P	P	P	P	N	N	N	P
2004(I)	N	N	N	N	N	N	N	N	P	P	P
2003	N	N	P	N	N	N	N	P	P	N	N
2002	P	P	P	P	P	P	P	N	N	N	N
2001	P	N	N	N	N	N	N	P	P	N	N
2000	P	P	N	P	N	P	N	N	N	N	N
1999	N	N	N	N	N	N	N	P	P	P	P
1998	N	N	N	N	N	N	N	N	N	N	N
1997	N	P	N	N	N	P	P	P	P	P	P
1996	N	N	P	P	P	P	P	P	N	N	N
1995	N	N	N	P	P	P	P	N	P	P	P
1994	P	P	P	P	P	P	P	P	N	N	N
1993	P	P	P	P	P	P	P	N	N	N	N
1992	P	P	P	P	P	P	P	P	P	P	P
1991	P	P	P	P	P	P	P	Ne	P	P	P

P - Positive, N - Negative & Ne - Neutral.

The following broad conclusions can be drawn from Table 1:-

- If we take 31 trading day as the beginning of the budget rally then the markets have gone up 7 out of 15 times. Therefore, the belief that we see a pre-budget rally is more or less true. The average cumulative returns in the 31 days prior to the budget is 1.6% (refer Table 2).
- Even if we take the beginning of the budget rally as 16 trading days before the budget day, the statistics remain more or less the same - the positive returns are 8 out of 15 times. The average cumulative returns in the 11 days prior to the budget is -0.8% (refer Table 2)
- This time one day prior to budget day is the first day of the new contract and we are likely to see a substantial rise on that day.
- The markets have been positive 6 out of 15 times after the budget (if we take the returns 3 days after the budget plus budget day as the basis)
- The important issue that arises is the relationship between the markets in the pre-budget and the post-budget phase. If we take the 31 day return to determine whether the returns were positive in the pre-budget period and the 3 day return post-budget, the relationship is as follows:

Pre-Budget	Post-Budget
Positive 2 Times (27.3%)	Positive 2 Times (18.6%)

But we have ignored this from our study since these pertain to the first two budgets presented by Dr. Manmohan Singh which marked the beginning of the reform process and so the markets went gaga over them quite naturally. As the reform process has matured, this is unlikely to be repeated.

Pre-Budget	Post-Budget
Positive 5 Times (8.7%)	Negative 5 Times (-5.3%)

From the above observation, it can be easily inferred that the markets have gone up 5 times Pre-budget and out of those 5 times, on all occasions they have given negative returns post-Budget.

Pre-Budget	Post-Budget
Negative 4 times (-4.6%)	Negative 4 times (-3.2%)
Negative 4 times (-1.2%)	Positive 4 times (6.8%)
Cumulative return (-5.8%)	Cumulative return (3.6%)

The above observation shows that the post-Budget return is positive if we consider the cumulative return pertaining to both the periods. For example, the cumulative return in the pre-budget is -5.8% whereas the cumulative return in the post-budget period works out to 3.6%.

It seems that there is an inverse relationship between the pre-Budget and post-Budget behaviour. When the returns are positive in the pre-Budget period, the returns are invariably negative in the post-Budget period. This clearly supports the hypothesis that there is an irrational exuberance in expectations from the budget which does not materialize. The expectations are only high from Finance Ministers with a good track record in delivering the goodies. However, these expectations rarely materialize and disappointment sets in with most of the gains given up in the post-Budget period. However, an investor who buys 31 trading days before the budget and sell after the budget, still benefits.

Negative returns before the budget reflect the fear that the budget could do a lot of harm. However, these fears are exaggerated and the post-Budget returns are positive in such cases. This also supports the hypothesis that when fear weighs on the markets, it always results in panic selling. This should not be seen as a crisis and one should use it as a buying opportunity.

The broad theme that emerges is that one is better off doing the opposite of what the market is doing. If there is a pre-Budget rally, then one should sell and buy post-Budget. In case, there is panic selling before the budget, one should buy into the panic selling and sell after the budget.

- The movement on the budget day does not give any clear indication about the market trend. So one should give more emphasis to the trend that is seen 1 Trading day after the Budget since 12 out of 15 times, the markets continued to exhibit the same trend observed on that day.

Pre-Budget Performance

Table 2, on the following page, indicates the returns during various periods in the pre-budget and post-budget as well as on budget day. We have computed the averages separately for the period for which the markets were positive in the pre-budget and post-budget period as well as the average for all. However, while calculating the average we have ignored the returns for the first two budgets presented by Dr. Manmohan Singh. The pre-budget rally was huge before these two budgets and such a feat is unlikely to be repeated. The excitement at that time was due to the fact that the reform process had just begun and the markets went gaga over it. As the reform process has matured, this type of behavior can be termed as an aberration in statistical terms and it is better to ignore to ensure that the averages are not distorted.

Assumptions & Methodology

1. All the days are trading days.
2. In 2004, there was an interim budget followed by the final budget.
3. We have calculated different averages for positive and negative returns, otherwise they offset each other.
4. We have ignored the data for 1991 & 1992 while calculating the average for reasons indicated earlier.
5. We have considered the closing price one day prior to the budget to calculate the returns.
6. 31 trading days before has been taken as the base for defining returns as positive or negative.
7. We have indicated the positive returns with a blue colour and negative returns with red colour.
8. Av_Tot is the average calculated considering both positive and negative returns.
9. For calculation of Av_Pos & Av_Neg, the 31 Trading days indication has been taken and if it has shown positive return the subsequent period, returns have been considered under Av_Pos for obtaining the average. Likewise has been done for the Av_Neg calculation.

TABLE 2 : Performance of Sensex Pre-Budget over the years (Segregation into positive & negative returns)

31 Tr Days Before			16 Tr Days Before			11 Tr Days Before			6 Tr Days Before			4 Tr Days Before		
Date	Value	% Chg	Date	Value	% Chg	Date	Value	% Chg	Date	Value	% Chg	Date	Value	% Chg
05/25/2004	5102.22	-2.9%	06/15/2004	4814.85	2.9%	06/22/2004	4735.86	4.6%	29/06/2004	4841.38	2.4%	07/01/2004	4874.05	1.7%
12/16/2003	5437.05	4.8%	01/07/2004	5957.02	-4.4%	01/14/2004	6194.11	-8.0%	01/21/2004	5758.19	-1.1%	01/23/2004	5816.64	-2.1%
01/14/2003	3335.35	-1.7%	02/04/2003	3278.13	0.0%	02/11/2003	3261.47	0.5%	02/19/2003	3302.04	-0.7%	02/21/2003	3307.20	-0.9%
01/15/2002	3352.52	10.5%	02/05/2002	3311.73	11.9%	02/12/2002	3497.68	5.9%	02/19/2002	3597.61	3.0%	02/21/2002	3570.46	3.8%
01/12/2001	4036.58	0.8%	02/05/2001	4370.47	-6.9%	02/12/2001	4406.30	-7.6%	02/19/2001	4350.65	-6.5%	02/21/2001	4302.23	-5.4%
01/13/2000	5444.82	5.4%	02/04/2000	5313.59	8.0%	02/11/2000	5933.56	-3.3%	02/18/2000	5721.65	0.3%	02/22/2000	5883.33	-2.4%
01/12/1999	3353.22	-3.6%	02/04/1999	3236.42	-0.1%	02/11/1999	3313.40	-2.4%	02/18/1999	3351.05	-3.5%	02/22/1999	3303.89	-2.1%
04/08/1998	4183.57	11.9%	05/05/1998	4147.29	-11.1%	05/14/1998	3897.94	-5.4%	05/21/1998	3897.10	-5.4%	05/25/1998	3908.11	-5.7%
01/14/1997	3492.26	-1.8%	02/05/1997	3354.72	2.2%	02/12/1997	3483.48	-1.6%	02/19/1997	3528.44	-2.9%	02/21/1997	3439.49	-0.3%
06/07/1996	3866.21	-1.8%	06/28/1996	3812.52	-0.4%	07/05/1996	3707.01	2.5%	07/12/1996	3651.56	4.0%	07/16/1996	3644.93	4.2%
01/11/1995	3600.79	-4.1%	02/02/1995	3599.29	-4.0%	02/09/1995	3555.57	-2.8%	02/16/1995	3409.69	1.3%	02/20/1995	3356.73	2.9%
01/12/1994	3903.79	9.3%	02/04/1994	3917.57	8.9%	02/11/1994	3991.37	6.9%	02/18/1994	3915.04	9.0%	02/22/1994	4084.87	4.5%
01/07/1993	2395.80	17.4%	02/03/1993	2660.75	5.7%	02/10/1993	2812.12	0.0%	02/17/1993	2638.85	6.6%	02/22/1993	2708.34	3.9%
01/09/1992	1972.53	39.9%	02/03/1992	2272.81	21.4%	02/10/1992	2273.47	21.4%	02/19/1992	2382.07	15.8%	02/21/1992	2454.66	12.4%
06/06/1991	1272.97	14.7%	06/28/1991	1269.91	14.9%	07/05/1991	1357.32	7.5%	07/12/1991	1441.85	1.2%	07/16/1991	1431.75	1.9%
AVERAGE	1.6%		1.0%		-0.8%	0.5%		0.2%						
AVERAGE	8.7%		5.5%		0.4%	2.5%		0.9%						
AVERAGE	-2.9%		-1.9%		-1.6%	-0.7%		-0.3%						

Blue - Positive Returns, Red - Negative Returns, Black - Average across Positive & Negative Returns

Note : The % change shown is the returns generated on the corresponding value stated for the period as applicable. For example, in the first observation the period under consideration is 31 trading days before the budget day. The % change of -2.9% implies that the markets gave -2.9% return from the level of 5102.22 till the pre-budget day.

Observation from Table 2

We have summarized the data Table 2 as under:

Averages	B-31	B-16	B-11	B-6	B-4
AV_Tot	1.6%	1.0%	-0.8%	0.5%	0.2%
AV_Pos	8.7%	5.5%	0.4%	2.5%	0.9%
AV_Neg	-2.9%	-1.9%	-1.6%	-0.7%	-0.3%

- The combined average across the time periods gets muted as the positive returns offset the negative returns.
- The segregated averages of Positive returns and negative returns for the various Pre Budget shows that for a 31 day period the average returns for the positive periods have been around 8.7 % whereas the negative returns have been around -2.9%
- Likewise the data in the above table shows the average positive returns and average negative returns for the positive return Pre-Budget and Negative Pre- Budget for the various time periods.

A striking feature of the pre-budget rally is the fact that the average positive returns are much higher than the average negative returns. The average cumulative return in the 31 days prior to budget on average is 8.7% in case of positive rally whereas it is a negative -2.9% in case the rally is negative.

This is a clear indication that the investors-at-large always expect some goodies in the budget. It seems that the real Christmas time for the stock market is the Budget Day with the Finance Minister playing Santa Claus with his bag of gifts. However, it is a completely different matter that on more occasions the investors are not happy with the gifts handed out.

Post-Budget Performance

Table 3, indicates the returns during various periods in the post-budget as well as on budget day. We have computed the averages separately for the period for which the markets were positive and for the periods for which the markets were negative in the post-budget period as well as the total average.

TABLE 3 : Performance of Sensex Post-Budget over the years (Segregation into positive & negative returns)

B_Day-1 Value	Budget Day Date	Budget Day Value	% Chg	Budget Day + 1 Tr Day Date	Budget Day + 1 Tr Day Value	% Chg	Budget Day + 1 Tr Day Date	Budget Day + 1 Tr Day Value	% Chg	Budget Day + 3 Tr Days Date	Budget Day + 3 Tr Days Value	% Chg	Budget Day +10 Tr Day Date	Budget Day +10 Tr Day Value
4955.97	08/07/2004	4843.84	-2.3%	09/07/2004	4945.48	-0.2%	13/07/2004	4898.99	-1.2%	22/07/2004	5054.29			
5695.67	03/02/2004	5620.98	-1.3%	04/02/2004	5756.76	1.1%	06/02/2004	5786.35	1.6%	17/02/2004	6035.80			
3277.34	28/02/2003	3283.66	0.2%	03/03/2003	3277.27	0.0%	05/03/2003	3226.10	-1.6%	17/03/2003	3084.91			
3705.66	28/02/2002	3562.31	-3.9%	01/03/2002	3678.75	-0.8%	05/03/2002	3641.10	-1.8%	14/03/2002	3580.83			
4069.68	28/02/2001	4247.04	4.4%	01/03/2001	4271.65	4.8%	05/03/2001	3998.12	-1.7%	15/03/2001	3819.86			
5740.69	29/02/2000	5446.98	-5.1%	01/03/2000	5642.12	-1.8%	03/03/2000	5378.27	-6.7%	14/03/2000	5175.71			
3233.86	27/02/1999	3399.63	5.1%	01/03/1999	3523.98	8.5%	04/03/1999	3601.96	10.8%	15/03/1999	3783.71			
3686.39	01/06/1998	3642.68	-1.2%	02/06/1998	3573.21	-3.1%	04/06/1998	3546.21	-3.8%	15/06/1998	3152.96			
3427.87	28/02/1997	3474.79	1.4%	01/03/1997	3651.91	6.4%	03/03/1997	3871.05	12.8%	13/03/1997	3754.51			
3797.85	22/07/1996	3807.68	0.3%	23/07/1996	3663.08	-3.5%	25/07/1996	3559.28	-6.3%	05/08/1996	3482.68			
3454.89	28/02/1995	3421.47	-1.0%	01/03/1995	3459.81	0.1%	03/03/1995	3528.36	2.1%	14/03/1995	3465.13			
4267.60	28/02/1994	4286.20	0.4%	01/03/1994	4147.72	-2.8%	03/03/1994	3981.71	-6.7%	16/03/1994	3791.94			
2813.15	27/02/1993	2783.58	-1.1%	28/02/1993	2652.40	-5.8%	02/03/1993	2543.82	-9.7%	12/03/1993	2361.15			
2759.22	29/02/1992	2830.91	2.6%	01/03/1992	3017.68	9.1%	03/03/1992	3472.78	25.2%	17/03/1992	3198.78			
1459.66	24/07/1991	1485.76	1.8%	25/07/1991	1555.43	6.4%	29/07/1991	1637.70	12.0%	08/08/1991	1632.90			
AV_Tot			-0.3%			0.2%								
AV_Pos			1.1%			4.1%								
AV_Neg			-0.9%			-1.5%								

Blue - Positive Returns, Red - Negative Returns, Black - Average across Positive & Negative Returns

Notes

1. The post budget returns have been calculated inclusive of the budget day e.g. Two day post budget means Budget day plus two trading days.
2. The base period for determining the post budget returns has been taken as Budget Day plus 3 Trading Days after Budget.
3. The methodology followed for average calculation has been the same as that in Table1.

Observation from Table 3.

We have summarized the data of Table 3 as under:

Averages	BD	BD+1	BD+3	BD+10
AV_Tot	-0.3%	0.2%	-0.9%	-3.2%
AV_Pos	1.1%	4.1%	6.8%	8.0%
AV_Neg	-0.9%	-1.5%	-4.4%	-8.2%

- The segregated averages of Positive returns and negative returns for the various Post Budget shows that for a BD the average returns for the positive periods have been around 1.1 % whereas the negative returns have been around -0.9%. Similarly for the period of BD+1 the average returns for positive returns and negative returns have been 4.1% and -1.5% respectively.
- Likewise the data in the above table shows the average positive returns and average negative returns for the positive return Pre-Budget and Negative Pre- Budget for the various time periods.

The post budget rallies are different from the pre-budget rallies. The average positive returns (8%) is almost equal to the average negative returns (-8.2%). However, the frequency of negative returns is much higher and hence, the average returns across positive and negative in the post budget period is a negative -3.2%.

Interim Period Performance

Table 4 summarises the returns within two time periods for the various periods under study.

TABLE 4 : Pre-Budget & Post-Budget Incremental Performance

PRE-BUDGET INCREMENTAL				POST-BUDGET INCREMENTAL			
No of Tr Days	AVERAGE-POSITIVE	AVERAGE-NEGATIVE	AVERAGE-TOTAL	No of Tr Days	AVERAGE-POSITIVE	AVERAGE-NEGATIVE	AVERAGE-TOTAL
31-16	7.3%	-2.3%	1.1%	BD	1.1%	-0.9%	-0.3%
16-11	3.1%	1.3%	1.8%	BD+1	3.1%	-0.5%	0.6%
11-6	-4.1%	0.0%	-1.3%	BD+3	2.7%	-2.9%	-1.2%
6-4	1.7%	-0.3%	0.3%	BD+10	1.1%	-4.0%	-2.4%
4-3	0.5%	-0.7%	-0.4%				
3-2	-0.5%	-0.1%	-0.2%				
BD-2	0.3%	1.0%	0.8%				

Methodology

Incremental performance means the performance between our selected time periods. As we have selected the time period of 31, 16, 11, 6, 4, 3 and 2 trading day periods for the Pre Budget study, the incremental performance would mean the performance between 31 to 16, 16 to 11 trading days and so on. For calculating the said performance, we have taken the return between the corresponding periods. Similarly for the Post Budget periods we have considered Budget Day, and 1, 3, and 10 days post budget.

It is very clear from the above table that the fall is much sharper than the rise after the budget. This clearly indicates that once budget expectations are built in, the room for disappointment is more.

Pre Budget - Incremental - (Positive)

The analysis of incremental returns in the pre-budget period indicate that most of the rally is front loaded, that is it happens pre-dominantly in the 16 to 31 day period before budget and to a lesser extent in the 11 to 16 day period. The average returns in the 16 to 31 day period was 7.3 % whereas in the 11 to 16 day period it was 3.1%. The markets in the last 11 days remain range bound, but choppy. Though the returns on average in a positive pre-budget rally was a mere 0.4%, the average returns were positive in some periods and negative in other periods.

Pre Budget- Incremental - (Negative)

The analysis of negative returns also throw a similar picture. Most of the negative sentiments are front loaded. The returns are negative in the 16 to 31 day period. In the last 11 days the markets move within a very tight range

Post Budget- Incremental - (Positive)

Most of the post- Budget period is discounted on budget Day and the day after. Quantitatively that comes to about 3.1%. The returns continue to be significant for the next 2 days i.e. 2.7 % but thereafter it peters out. The average returns are a mere 1.1% over the next 7 trading days.

Post Budget- Incremental - (Negative)

In case the budget disappoints it takes a while before the information is discounted. The average returns are negative by - 0.5% one day after the budget (including the budget day). However it gathers momentum. The average cumulative returns over the next 2 days is -2.9% and over the succeeding seven trading days is another -4%. The message from the above is that if the budget disappoints one should exit at the earliest and not wait till the end.

Budget Day Performance

The pattern on the budget day is most striking and interesting. There is a distinct trend on the Budget Day and it repeats itself every time. The market opens with a gap. The gap is positive on all occasions except on 2 occasions. If we take the positive gap it turns out to be 0.7% or approximately 50 points in the present context.

TABLE 5 : Budget Day - Sensex Intra Day Movement

Budget Date	Prev. Cl	Gap	Gap (%)	Open	High	Diff (H-O)	% Chg	High	Low	Diff (L-H)	% Chg	Low	Close
08/07/2004	4955.97	16.09	0.3%	4972.06	5004.17	32.11	0.6%	5004.17	4808.63	-195.54	-3.9%	4808.63	4843.8
03/02/2004	5695.67	19.79	0.3%	5715.46	5715.46	0.00	0.0%	5715.46	5550.17	-165.29	-2.9%	5550.17	5620.9
28/02/2003	3277.34	17.26	0.5%	3294.60	3316.74	22.14	0.7%	3316.74	3269.80	-46.94	-1.4%	3269.80	3283.6
28/02/2002	3705.66	5.44	0.1%	3711.10	3731.28	20.18	0.5%	3731.28	3537.19	-194.09	-5.2%	3537.19	3562.3
28/02/2001	4069.68	0.69	0.0%	4070.37	4264.02	193.65	4.8%	4264.02	4056.40	-207.62	-4.9%	4056.40	4247.0
29/02/2000	5740.69	87.12	1.5%	5827.81	5903.49	75.68	1.3%	5903.49	5383.61	-519.88	-8.8%	5383.61	5446.9
27/02/1999	3233.86	67.27	2.1%	3301.13	3400.19	99.06	3.0%	3400.19	3215.69	-184.5	-5.4%	3215.69	3399.6
01/06/1998	3686.39	50.86	1.4%	3737.25	3823.15	85.90	2.3%	3823.15	3640.30	-182.85	-4.8%	3640.30	3642.6
28/02/1997	3427.87	28.27	0.8%	3456.14	3510.04	53.90	1.6%	3510.04	3456.14	-53.9	-1.5%	3456.14	3474.7
22/02/1996	3797.85	3.83	0.1%	3801.68	3820.92	19.24	0.5%	3820.92	3748.77	-72.15	-1.9%	3748.77	3807.6
28/02/1995	3454.89	-60.66	-1.8%	3394.23	3422.78	28.55	0.8%	3422.78	3393.90	-28.88	-0.8%	3393.90	3421.4
28/02/1994	4267.60	-145.48	-3.4%	4122.12	4288.43	166.31	4.0%	4288.43	4122.12	-166.31	-3.9%	4122.12	4286.2
27/02/1993	2813.15	4.16	0.1%	2817.31	2818.22	0.91	0.0%	2818.22	2778.56	-39.66	-1.4%	2778.56	2783.5
Average	7.28	0.2%				61.36	1.6%			-158.28	-3.6%		
Average	27.34	0.7%											
Average	-103.07	-2.6%											

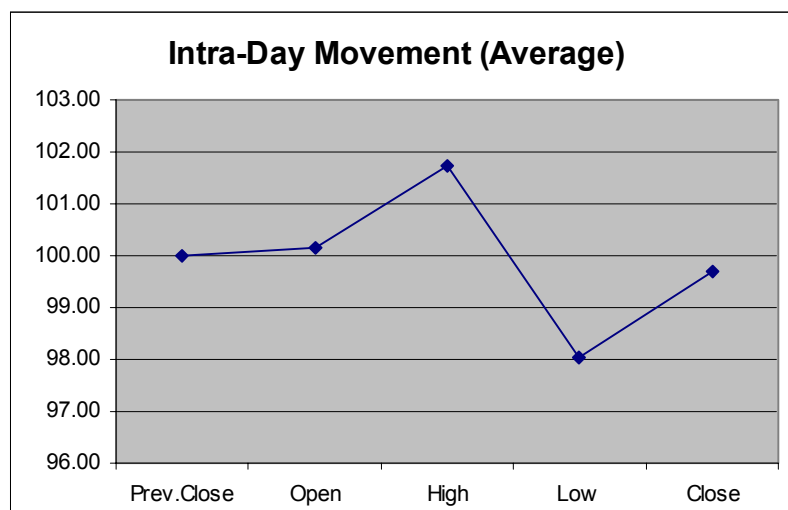
Observation from Table 5

We have summarized the data of Table 5 as under

AV_Tot Opening Gap (%)	0.2%
AV_Pos Opening Gap (%)	0.7%
AV_Neg Opening Gap (%)	(2.6)%
Average rise from Opening to Intra-Day High (%)	1.6%
Average decline from Intra-Day High to Intra-Day Low (%)	(3.6)%
Average rise from Intra-Day Low to Closing (%)	1.7%
Budget Day Return	(0.3)%
AV_Pos (%)	1.1%
AV_Neg (%)	(0.9)%

The markets have opened with a negative gap on only two occasions. Even in these two occasions the market gave positive returns for the BD on one occasion of 0.4% and negative return on one at -1%. This clearly indicates that the market not only opens on a positive note on the BD but also goes further up.

The following graph summarizes the average on a scale of 100:



Inference

The markets have opened with an average positive gap of 0.2% (0.7%-Average Positive Opening Gap & (2.6)% - Average Negative Opening Gap) on the budget day. After that, the markets rise by an average of 1.6% to reach the day's high. However, it falls from its peak by an average of 3.6% during the day and subsequently bounces back with an average rise of 1.7% before closing. The Budget Day Performance has been 1.1% when it has given positive returns and -0.9% in case of negative returns.

Salient Points regarding this year's budget

1. During the period from 31 Trading Days to Budget - 11 Trading Days to Budget, we have seen a 6.6 % rise in the markets.
2. There are a lot of expectations based around this budget. The markets is expecting a sequel to the two dream budgets presented by Mr. Chidambaram.

Inference

1. The study suggests an average rise of 7.3% in the pre-Budget period of 31-16 days when there has been a positive return pre-budget.
2. Though the pre-Budget returns for this Budget cannot be done as of now but there are some striking similarities with the positive pre-budget rally -
 - Positive return inching towards the average for the period of 31 - 11 trading days.
 - Huge expectations leading to positive returns pre-budget.

Conclusion

There are always expectations from the Budget and the markets overreact to these expectations in either direction. In case of favourable expectations the markets overreact on the positive side and vice-versa. Once the Budget story unwinds the markets generally move in the opposite direction vis-à-vis Pre - Budget movement.

This is collaborated from the following facts

- In 5 instances when there has been a Positive Pre- Budget rally the Post-Budget performance has been negative.
- In 8 instances when there has been a Negative pre-Budget rally the Post-Budget rally on 4 occasions have been negative and on other 4 it has been positive. However if we take the average of the Post Budget rally of the 4 negatives returns and 4 positive returns the combined average gives positive returns.

Going forward till Budget Day The markets are likely to remain range bound as suggested by the average of the cumulative 11 day Pre Budget performance.

The Pre- Budget rally in the period 31 Tr Day to Budget - 11 Tr Day to Budget has already given a positive return of 6.6%. Probability of negative returns post-Budget are high when there have been positive returns in the pre-budget period.

We believe that the above phenomenon will repeat itself as the expectations from the budget are high and given the several constraints on the revenue front and the commitments of CMP, the gifts doled out by the FM would fall short of expectations..

Strategy

1. Book profits and buy post-budget - If the markets remain range bound or witness a positive trend one should sell before the budget day . As per the empirical evidence one would get the opportunity to buy at lower prices post Budget.
2. Buy protection on existing portfolio- Long Term Investors who do not wish to liquidate their position can protect the erosion in their portfolio by hedging the same. In other words they can buy Put Options.

Budget - Day Strategy

The market movement on the Budget day has shown a distinctly similar trend across our study period. On an average It has opened with an average gap of 0.2 % gone up by a further 1.6% . Thereafter it has corrected by around 2.3% and subsequently bounced back by 0.5%.

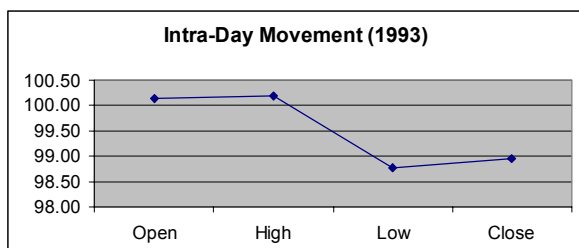
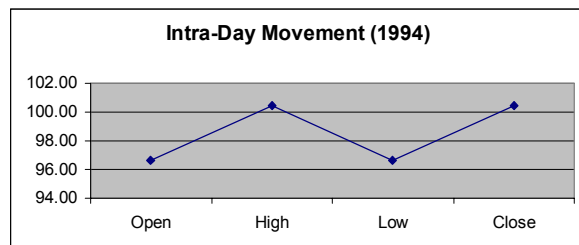
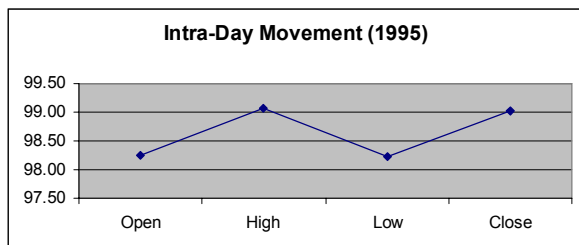
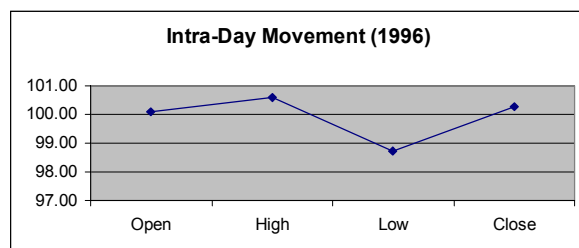
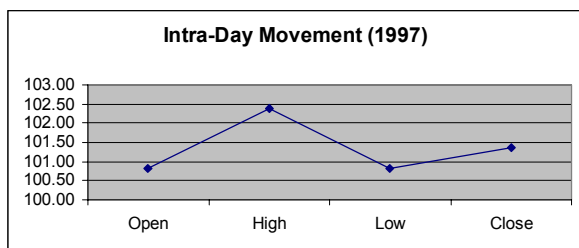
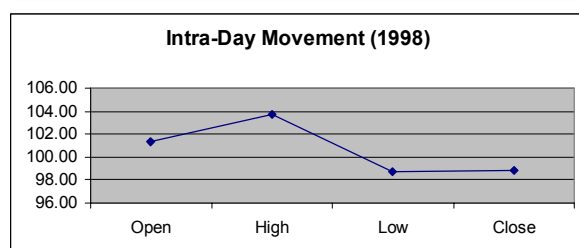
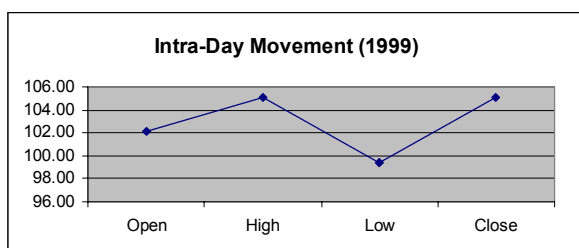
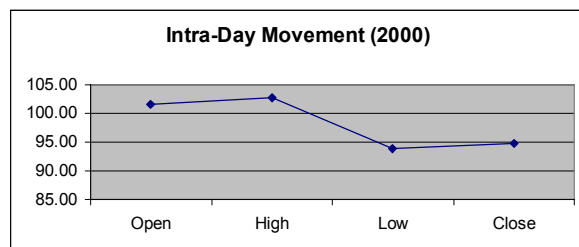
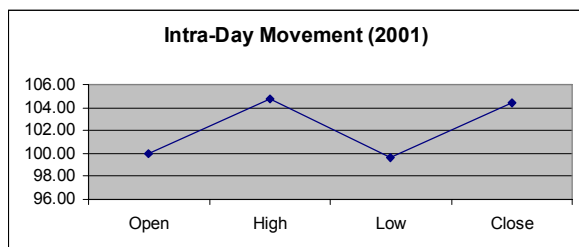
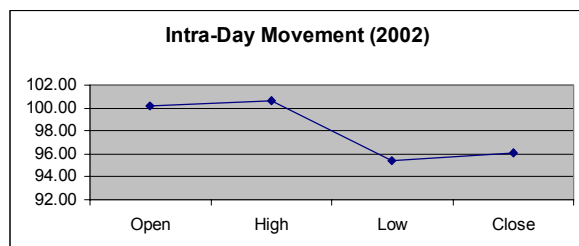
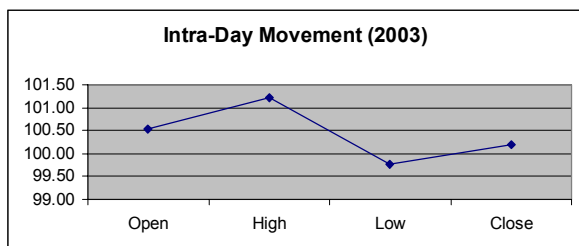
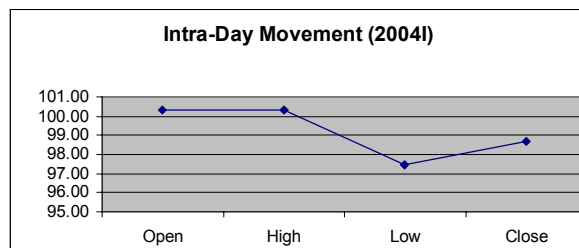
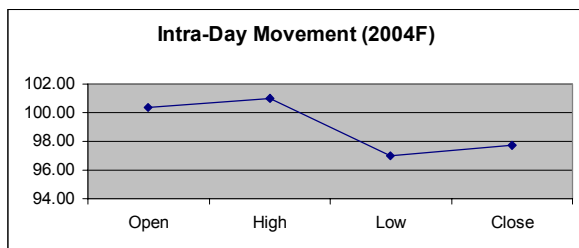
Therefore, irrespective of the developments prior to the Budget day, markets always go up from the opening prices.

If this trend repeats this year we could expect the market to open with a gap of 50 points. We can further expect it to go up by a further 100 points and then correct by 200 points from the peak before recovering 100 points from the low.

One can execute the following strategy:

1. Go long on the last day of the current series and book profits after the markets have risen by 75-100 points.
2. Go short once the market starts falling from the peak.

Annexure Intra Day Graphs of Budget Day Market Performance for the last 13 Budgets



Note : The graphs have been drawn on a base of 100 and depicts the relative performance.

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