



# Indian Investors Express Their Optimism

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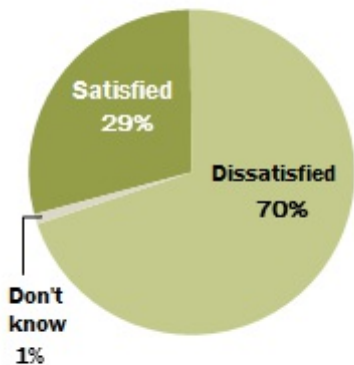
Some 800 million voters in India are heading to the polls this month in an election process that will take several weeks to complete. India's stock market has recently reflected the optimism investors feel in India. After a stretch of policy logjams and years of unmet potential in India, we're also optimistic.

While we aren't in the business of predicting elections, this one could prove historic for India. The Congress party has dominated the country since India gained independence from colonial rule in 1947, but there is a possibility that an unprecedented change could take place when the results are in. A win for the Narendra Modi-led Bharatiya Janata Party (BJP) and its allies would result in the National Democratic Alliance (NDA) coming to power at the country's center of influence. While not without controversy, Modi's achievements in the western state of Gujarat, where he has been chief minister for 11 years, have been viewed positively by many. Recent opinion polls suggest India's people want that type of progress for the rest of the country.

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## Indians Dissatisfied with Country's Direction

% \_\_ with the way things are going in country today



Source: Dec. 2013-Jan. 2014 Global Attitudes survey in India. Q1.

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According to a recent Pew Research survey, the majority of Indians reported dissatisfaction with the way things have been going in their country and less than 30% were satisfied.<sup>1</sup> This discontent swept across all generations, income levels and genders. We'll see how this dissatisfaction plays out as the votes are counted. Interestingly, despite this general dissatisfaction, the Pew survey showed most Indians were upbeat about the economy's prospects. That seems to fall in line with expectations for India's GDP growth to outpace that of the last few years, projected to grow 5.4% in 2014 and 6.4% in 2015.<sup>2</sup>

## Great Expectations in India

Indian investors were particularly optimistic about their stock market's prospects, as well as their own financial prospects. The Franklin Templeton [2014 Global Investor Sentiment Survey](#) (GISS)<sup>3</sup> revealed that, out of the 22 countries surveyed, investors in India were the most optimistic about prospects for their local market, with 82% of Indian investors anticipating their local stock market to be up in 2014. Of those surveyed in the GISS, over half of Indian investors reported plans to increase their exposure to domestic (Indian) equities. And, for a second year in a row, Indian investors emerged as being the most optimistic about reaching their financial goals.

As investors, we are certainly hopeful these market predictions play out although obviously there is no guarantee. As we see it, the crux of the problems in India is that the current government hasn't moved fast enough to make the reforms that many believe need to be made to propel the country as a whole forward. We've seen progress at the state level but not at the national level. In our view, what India needs is reform, plain and simple: less corruption and more action. This isn't uniquely our view. According to the Pew Research survey, more than 80% of Indians say corrupt politicians and business people are a big problem in India. They lament the political gridlock that is holding back progress in fixing the nation's economic problems.<sup>4</sup>

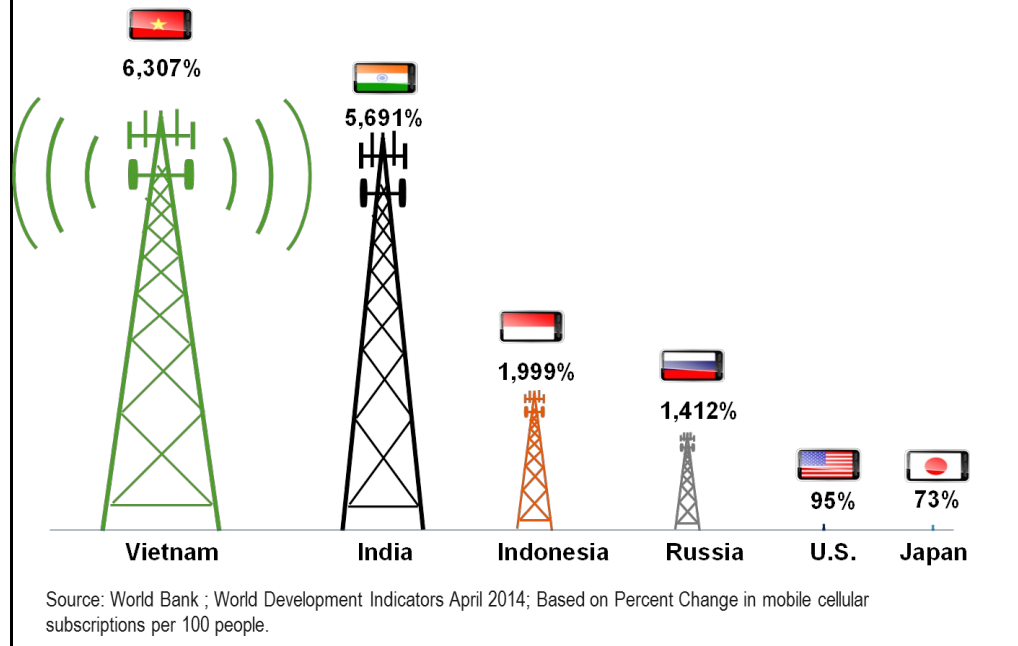
### Two Areas for Reform: Bureaucracy and Education

There are two main areas we think are in need of reform. The first is the barriers to foreign investment in India, which are tremendously high. There is an excess of bureaucracy. The red tape needs to come down. The second is education. We believe the educational level of the entire population needs to be lifted. Of course, there are great universities and many well-trained, educated people in India. But, in our opinion, there are segments of the population that are missing out on the opportunities an education can provide, and that means the country is missing out on the full potential of its human resources.

As investors, we are focused on companies and industries that utilize or take advantage of the tremendous brainpower of the population. We focus on companies that can essentially export this brain power, and which are more isolated from some of the investment barriers that have impacted other industries, such as mining.

In our view, there are certainly a lot of positives for India that can bode well for its future. Its people have a relatively high savings rate, its youthful population creates a positive demographic with a lower dependency ratio than many other developed countries, and its economy is fairly diversified with a strong service sector. India's middle class also has the potential to grow significantly, which means that it could become an even greater consumer market. Given the current economic growth rates, within 20 years it is expected that some 291 million people will move out of poverty and into the ranks of the middle class.<sup>5</sup> With this type of growth typically comes greater spending on consumer goods and services. For example, wireless communications has been growing by leaps and bounds in India.

## Mobile Phone Subscription Growth (2002-2012) Emerging Vs. Developed Markets



### A Final Note

One more note I'd like to make about the Franklin Templeton Global Investor Sentiment Survey. Interestingly, more than half of all investors surveyed in all countries planned to become more conservative this year with their investments, despite the fact they also had some optimistic hopes regarding returns this year. Of course, people should evaluate their hopes in light of the actions they take—that applies to life in general, and not just investing!

Want to see the rest of what our survey respondents had to say? [2014 Franklin Templeton Global Investor Sentiment Survey](#).

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1. Source: "Indians Reflect on Their Country and the World," Pew Research Center, Washington, D.C. (March 31, 2014).
2. Source: © by International Monetary Fund. "World Economic Outlook Update," January 2014.
3. Franklin Templeton's 2014 Global Investor Sentiment Survey was conducted online by ORC International in January 2014. The survey polled 11,113 investors across 22 countries.
4. Source: "Indians Reflect on Their Country and the World," Pew Research Center, Washington, D.C. (March 31, 2014).
5. Source: McKinsey Global Institute, "Next Big Spenders: India's Middle Class." May 2007. © 2014 McKinsey & Company.