

Investor NEWSLETTER



Revisiting the emotions of fear and greed

Dear Investor,

Shall we just rewind our lives about 8-9 months, to March 2020? The Nifty 50 Index, that closed at 12168.45 on 31st December 2019, and still hovering around 12200 in early February 2020, fell to 7610.25 on 23rd March 2020 (a fall of 37.45% from December 2019). There was a wild panic about the Coronavirus pandemic, especially after the lockdown imposed. We saw several panic reactions, including extreme reactions about the end of the stock market as we know it.

We are not trying to belittle the extent of the problem. Probably this crisis the world is facing (and it is still not over) is the worst we have seen in over a decade. In human terms, the pandemic has caused immense pain – as we write this newsletter, more than 64 million people have been infected with the virus, and nearly 1.5 million have died. Nearly 47% of the deaths have been in four countries (USA, India, Brazil and Mexico, with the USA accounting for nearly 19% of total deaths).

Our point is that a crisis would not affect all companies in the same manner, or in the same proportion. We had pointed this out in a poem (released in early March 2020), which we reproduce here for your benefit:

The world is not going to end

Just two months ago when we were roaring with you, dear Nifty
All of a sudden though, we've all turned quite shifty
Far from turning to the market gurus to inspire us,
We have turned a population terrified of a virus

But let's hang on a second, and see beyond the panic
The market now is just as irrational, as it was when it was manic
So, instead of waffling and worrying without a clue
Let us just focus on the sensible things to do

As far as we can see, nobody's gotten over their need to eat
And not all companies have a hole in their balance sheet
Sure, some banks have caused much sorrow,
But there are others, stronger, from whom the world will borrow

Last time we checked, people still brush their teeth
And nobody is thinking only about laying their own wreath
The virus, if anything, has increased the awareness of the soap
As long as people use it, we guess there's still hope

No, the virus can't mask the nature of the human
We normally fight it out to a world with a brighter lumen
Not saying that all investors in the market will stop their bleed
Just the ones who had gotten better of their fear and greed

Let's manage our investments just like we do our household
We buy things only when they are worth it, be it grocery, or gold
We are usually happy when the prices of grocery and gold fall
So why is it when the market falls, we can't take it at all?

'Tis just that for our normal buying, the prices we don't predict
How its going to move later, cause there's no such edict
So let's focus on the business and the price, like a good buyer
Without bothering if its share price immediately goes higher

Buying during a panic isn't being foolishly brave,
Just that a good asset is reasonable only during a shock wave
Safety is not just about staying away when prices fall
'Tis also about staying away when they seemed too tall

By

E A Sundaram

Chief Investment Officer and Portfolio Manager

Our argument then (and we had backed it up with corresponding portfolio actions) was that there would be some businesses that would be affected less by the pandemic, and where the chances of recovery would be quicker. Provided one chose strong and competitive companies in this category, there is less to fear.

During the time of the panic around the pandemic, we had purchased stocks like

- Asian Paints
- Titan Company
- Blue Dart
- Sanofi India
- Sun Pharma
- Indraprastha Gas

We had also increased our stake in companies like HDFC Bank, ITC, Colgate Palmolive India and Oracle Financial Services Software.

Of course, some of the stocks in our portfolio had to bear the brunt of the economic impact of the lockdown. Stocks like Cummins, State Bank of India, Container Corporation and Bosch that were part of our portfolio corrected sharply during that period.

The common thread running through the portfolio was it was packed with highly competitive companies that were fully capable of withstanding the effects of an economic slowdown.

We are happy that many of the bets that we had made during the times of the pandemic-induced panic have turned out beneficial for the investors in our portfolio.

Company	Price Movement (March - November 2020)
Asian Paints	32.93%
Titan Company	45.79 %
Blue Dart	81.69 %
Sanofi India	32.21 %
Sun Pharma	45.23 %
Indraprastha Gas	27.95 %
Cummins India	79.36 %

Our intention has never been to give you the **maximum** return. When the intention of the portfolio manager is to be No.1 at all points of time, it comes with a very high cost. The risk in the portfolio increases tremendously, especially in highly bullish markets. Our intention always has been to give you a portfolio of companies that are inherently strong and competitive, and purchased when such stocks aren't too expensively valued. Over a period of time, such a strategy gives you a decent return, without subjecting your money to unnecessary levels of risk, while at the same time providing you with a qualitative diversification from the mainstream portfolios that you may have.

Can we be complacent?

Things change. The abject panic that we witnessed in March 2020 is now being replaced, in many cases, by an optimism that may not be warranted by fundamentals. The primary motivation that was fear (in March 2020) is now being replaced with the primary motivation of greed. This may not be true in all cases, but it is true in several cases.

The Nifty 50 index, that had fallen to a PE valuation of around 17 in March (below its long-term average levels), has now risen to a PE valuation level of around 35, well above its historical average.

Our style of investing does not pay much attention to the valuation level of the Index. We are far more interested in the individual names and their valuation. Nevertheless, we see good reasons to be cautious, because several companies have risen to all-time highs in term of price, whereas their financial parameters are below the pre-pandemic levels.

Nifty 50 Index - PE History



Source: NSE

There are several stocks in the Nifty 50 index (and outside of the Nifty 50 index), that has appreciated much more than the pre-pandemic level. Of course, it matters whether they are strong and capable, but to an investor, it also matters at what price we buy into such companies. We can't just buy at ANY price and expect the bullishness to continue for ever. And we can't say that all stocks that have participated in the post-April rally reflect the true fundamentals. At the same time, we do see several excellent companies trading at very reasonable valuations indeed. It is our fervent wish that our market always remains such a stock picker's delight.

It is in our interest to carefully see each company separately, assess the extent of its competitiveness, and its valuation levels, and build a portfolio accordingly.

That is precisely what we are doing with your portfolio.

Warm regards

Yours sincerely,

(E A Sundaram)

Chief Investment Officer and Portfolio Manager

Top 10 Holding of o3 Core Value Investment Approach - Regular Option as on 30 th November 2020			Overweight / Underweight of Regular Model Portfolio Compared to Nifty 500 as on 27 th November 2020		
Name	GICS Sector	Weight		Underweight	Overweight
ITC	Consumer Staples	6.48%	Industrials		15.51%
Oracle Financial Services Software	Information Tech	4.89%	Consumer Staples		9.43%
HDFC Bank	Financials	4.77%	Health Care		5.41%
Cummins India Ltd	Industrials	4.71%	Consumer Discretionary		0.14%
State Bank of India	Financials	4.58%	Real Estate	(0.57%)	
Colgate-Palmolive (India)	Consumer Staples	4.54%	Materials	(1.26%)	
Indraprastha Gas Ltd	Utilities	4.31%	Communication Services	(2.74%)	
Bosch	Consumer Discre	4.21%	Utilities	(3.09%)	
Container Corporation of India	Industrials	4.12%	Information Technology	(6.10%)	
Blue Dart	Industrials	3.96%	Energy	(9.73%)	
		46.57%	Financials	(16.02%)	

Investment Objective: The investment objective is to achieve capital appreciation through investment in a diversified portfolio of strong businesses, purchased at reasonable valuation.

Regular Model Portfolio Details as on 27 th November 2020		Regular Model Portfolio Composition as on 27 th November 2020	
Weighted Average ROCE	27.84%	Large Cap	29.0%
Portfolio PE (1 year forward PE, Based on FY22)	22.70	Midcap	45.5%
Portfolio Dividend Yield	2.26%	Small Cap	16.5%
Average Age of companies	59 Years	Cash	9.0%

- Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on 27th November 2020
- Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on 27th November 2020
- Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on 27th November 2020

Regular Model Portfolio Composition as on 27th Nov 2020

Model Portfolio Overlap with Nifty 500	9.80%
Model Portfolio Overlap with Nifty 50	9.70%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option			Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option		
Period	27 th November 2020		Period	27 th November 2020	
	Portfolio	Nifty 500		Portfolio	Nifty 500
1 Months	10.39	9.96	1 Months	8.00	9.96
3 Months	11.05	11.88	3 Months	8.37	11.88
6 Months	30.40	41.12	6 Months	30.09	41.12
1 Year	1.13	9.20	1 Year	4.25	9.20
Since Inception (15/04/2019)	4.03	5.80	Since Inception (14/05/2019)	6.65	10.72

- Benchmark is Nifty 500, the portfolio is spread across different market capitalization, hence Nifty 500 is chosen as benchmark
- Since inception date stated is considered to be the date on which the first client investment was made under the investment approach

Disclaimer: Performance depicted is based on all the client portfolios existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing *arithmetic* average for the overall strategy. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses. *The performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.*

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