



Dear Investor,

This is the election season. Inevitably in the stock market, the most discussed questions are:

- Will the NDA get the same kind of majority that it got in 2014?
- If it doesn't, by how much will the stock market fall?
- Even if it wins, is that "already discounted" by the stock market at present levels?

Maybe there are some people who can give clear answers to these questions. As far as we are concerned, we think that the effort of the investor should be towards doing things within his or her control, rather than trying to second-guess what the rest of the market would do. In that sense, the outcomes of an election are largely irrelevant to a long-term investor.

The upcoming elections would be the 11th election to the Lok Sabha in the past 40 years. The following table gives an idea of how India's stock market has performed during the tenure of each government. We have taken the movement of the BSE Sensitive Index as the barometer.

Movement of India's stock market under various political dispensations

Government headed by	Start	End	Tenure	Market Returns %
Janata Party - Mr. Morarji Desai	Apr-79	Jul-79	4 months (*)	15.86%
Janata Party - Mr. Charan Singh	Jul-79	Jun-80	1 year	5.43%
Congress - Mrs. Indira Gandhi	Jul-80	Oct-84	4 years 3 months	20.28%
Congress - Mr. Rajiv Gandhi	Nov-84	Nov-89	5 years	20.82%
Janata Dal - Mr. V.P. Singh	Dec-89	Nov-90	11 months	73.43%
Janata Dal - Mr. Chandrashekhar	Nov-90	Jun-91	8 months	6.15%
Congress - Mr. P.V. Narasimha Rao	Juun-91	May-96	4 years 11 months	24.46%
NDA - Mr. Atal Bihari Vajpayee	May-96	May-96	13 days	2.30%
United Front - Mr. H.D. Deve Gowda	Jun-96	Apr-97	11 months	3.10%
United Front - Mr. I.K. Gujral	Apr-97	Mar-98	10 months	1.30%
NDA - Mr. Atal Bihari Vajpayee	Mar-98	Oct-99	1 year 6 months	9.24%
NDA - Mr. Atal Bihari Vajpayee	Oct-99	May-04	4 years 7 months	1.50%
UPA - Dr. Manmohan Singh	May-04	May-09	5 years	22.59%
UPA - Dr. Manmohan Singh	May-09	May-14	5 years	12.47%
NDA - Mr. Narendra Modi	May-14	Till Apr 25 2019	4 years 11 months	9.58%

Notes: (1) market returns calculated as CAGR returns of the BSE Sensex during the respective periods

(*) (2) The BSE Sensex was instituted from April 1979. Therefore the 4 month period of the Janata party denotes the time when the Index was in vogue. The Janata party government took over in March 1977.

Data source: www.bseindia.com

It would be very simplistic if one were to come to any conclusions based on the table above. The fact is that there are no straight correlations between which government ruled the country and how the stock market behaved. There is also no straight correlation between the economic reforms done and the stock market's immediate movement.

For instance, according to this table, the best stock market returns were obtained when Mr. V.P.Singh was the prime minister. We cannot remember any pathbreaking economic reforms during that tenure. On the other hand, some of the most radical reforms were undertaken in 1993 (and these changed the course of the way business was done in India), but the stock market slept for about 3 years after that.

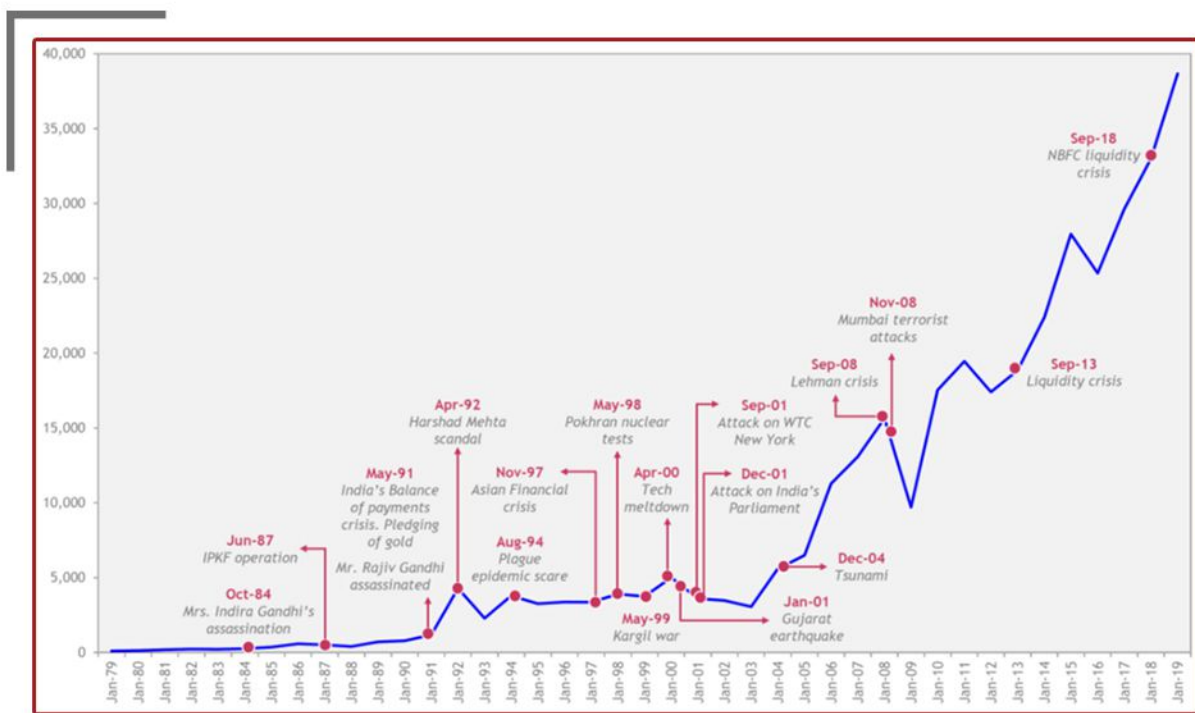
03

What is relevant for an investor is not which party wins the elections, but whether the economic policies and the reforms continue in the same direction. This important role by the government sets the stage for individual companies to compete. On this score, we have every reason to be satisfied that, despite the varying pace with which they are sometimes carried out, they are indeed continuing in the same direction.

Of course, as citizens, each of us would have differing political preferences; but as investors, we should be completely politically neutral. Our comfort should be derived from the competitiveness, growth potential and valuation of the stocks of the companies that we choose to invest in.

Shouldn't we be worried about the "uncertainty" caused by the elections?

The fact is that we will never find any situation that is devoid of uncertainty. But the good news is, the stock market really doesn't bother too much about it. Let's look at some of the more "uncertain times" we have faced in this country during the past 40 years:



Data source: www.bseindia.com

This chart does not include the several other situations that can normally be considered as "uncertain times". Also, this period has seen 11 different general elections to the Indian Parliament. The point is, the stock market in the last 40 years (BSE Sensitive Index) has given a total return of about 17% per annum despite going through all these "uncertainties". On a shorter time scale (the previous 15 years), the BSE Sensitive Index has given a total return of about 14% per annum.

03

「So, should we completely ignore the external situations?」

Hardly that. An investment in the stock market is our vote of confidence in India's economic future, and in that of the private enterprise of this country. So long as we are confident of these, shorter term issues matter little, really.

Elections will come and go, some parties or coalitions would attain power, and some others won't.

- ◆ **There are businesses that would continue to perform well irrespective of who wins, and there are businesses with weak fundamentals**
- ◆ **There are stocks that are quoting quite expensive, and others that are reasonably priced.**
- ◆ **Our job as investors is to choose to invest in strong businesses and do our best to ensure that we don't pay an exorbitant price for any of them.**

「In Conclusion」

Let's not forget how fortunate we are to be citizens in a country with these strengths

- ◆ **A genuine democracy despite having such a wide diversity of cultures, cuisines, and languages**
- ◆ **A country that offers a greater element of individual freedom compared to more than three fourths of the countries of the world**
- ◆ **An economy that is now counted as amongst the largest in the world, plus one that is amongst the fastest growing**
- ◆ **A diverse range of industries to invest in, many of which are on a world-scale - Information technology, financial services, pharmaceuticals, automobiles and parts, engineering and capital goods, consumer durables, FMCG, commodities, Agrochemicals, Textiles, Logistics, Utilities and many more**

Our submission is that our time is much better spent in identifying such strong businesses and determining the maximum price that we are willing to pay for them, rather than predicting how the stock market would react to each election outcome, or to each "uncertainty". There are simply too many factors at play in determining the short term price movement of stocks. In the longer term however, only three or four factors matter:

- ◆ **How competitive a company is (and expected to be) in the market place**
- ◆ **How its revenues and profits would grow**
- ◆ **What sort of people are running the company, and**
- ◆ **At what price have we bought its share.**



We conclude by saying this - We don't know which party is going to win these elections, but that matters little. We will focus on buying companies that would do well irrespective of who wins, and we will attempt to buy them at prices that make sense.

Let us not miss the woods for the trees.

Warm regards,
Yours sincerely,

(E A Sundaram)
Portfolio Manager & CIO

Disclaimers and risk factors: o3 Securities Private Limited is registered with SEBI as Portfolio Manager as Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993. This Document is for information purpose only None of the material on this document and/or on website is intended to be a recommendation to buy or sell any financial product including distribution, an endorsement, an investment advice, an offer to buy or sell or the solicitation of an offer to buy or sell any securities/ schemes or any other financial products/investment products (collectively "Products"). None of the material on this document and/or on website is intended to be tax advice.

Any use of the information contained herein for investment related decisions by the Investors/ Recipients is at their sole discretion & risk. Please read the Disclosure Document and the agreement along with the related documents carefully before investing.

Investments in Products are subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee/ warranty that the objectives of any of the Products will be achieved. The investments may not be suited to all categories of Investors/ Recipients. Investors/ Recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Products. While o3 Securities Private Limited shall endeavour to update on a reasonable basis the information disclosed here, o3 Securities Private Limited does not undertake to update such information to reflect the impact of circumstances or events, including regulatory or compliance changes that arise after the date of these disclosures. Past Performance is not indicative of future returns.

This document is strictly confidential and meant for private & restricted circulation only and should not at any point of time be construed to be an invitation for subscribing to o3 Securities Core Value Concentrated Strategy and/or Concentrated Value Regular Strategy. This document may not be reproduced or redistributed to any other person. The document is solely for the understanding of intended recipient and if you are not the intended recipient, you are hereby notified that any use, distribution, reproduction or any action taken or omitted to be taken in reliance upon the same is prohibited and may be unlawful. This document has neither been approved nor disapproved by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document. This document is not for public distribution.