Risk – the most ignored ingredient in Investing.

Dear Investor,

In this edition of our newsletter, we would like to focus on what we think is the most important aspect of investing, and one that, sadly, gets very little attention or mention in conversations in the mainstream media, or evening conversations about the stock market across the country.

Far too much attention is paid to how much returns have been made by each investor.

In our opinion, the primary job of the portfolio manager (or any investor) is NOT to generate returns. It is to control risk in the portfolio.

What is risk in the equity market? Is it merely a name given to volatility in share prices (especially when share prices fall?), or is it about assessment of global geopolitical events and their potential impact on the prices of stocks that we buy? The great Howard Marks has given this excellent definition:

"Risk means uncertainty about which outcome will occur and about the possibility of loss when the unfavourable ones do".

It is our understanding that "unfavourable outcomes" in investing can mean only one thing – permanent loss of capital. Short term fluctuations of stock prices are not unfavourable outcomes, as they occur every day, and they happen to all stocks. To illustrate, let us look at the volatility over the last one year in the constituents of the blue-chip S&P BSE Sensitive Index:

Data as on 28th February 2024			
Company	**52 W High**	**52 W Low**	**Difference (as % of low)**
Asian Paints	3,566.90	2,705.90	31.80%
Axis Bank	1,151.50	814.30	41.40%
Bajaj Finance	8,190.00	5,487.30	49.30%
Bajaj Finserv	1,741.90	1,216.10	43.20%
Bharti Airtel	1,201.00	736.20	63.10%
HCL Technologies	1,696.50	1,016.50	66.90%
HDFC Bank	1,757.80	1,363.50	28.90%
Hindustan Unilever	2,768.50	2,347.00	18.00%
ICICI Bank	1,069.80	810.50	32.00%
Indusind Bank	1,694.40	990.30	71.10%
Infosys	1,731.00	1,215.50	42.40%
ITC	499.60	369.70	35.10%
JSW Steel	895.60	649.80	37.80%
Kotak Bank	2,063.00	1,644.20	25.50%
L&T	3,738.90	2,086.00	79.20%
Mahindra & Mahindra	1,957.90	1,124.00	74.20%
Maruti Suzuki	11,715.00	8,127.10	44.10%
Nestle	2,770.80	1,788.80	54.90%
NTPC	347.90	166.70	108.70%
Powergrid	293.30	161.90	81.20%
Reliance	2,999.90	2,012.10	49.10%
State Bank of India	777.50	501.90	54.90%
Sun Pharma	1,587.90	922.60	72.10%
Tata Motors	976.30	400.40	143.80%
Tata Steel	147.40	101.70	45.00%
TCS	4,184.60	3,070.30	36.30%
Tech Mahindra	1,416.00	983.00	44.10%
Titan Company	3,885.00	2,320.00	67.50%
Ultratech Cement	10,522.70	6,991.40	50.50%
Wipro	546.10	351.90	55.20%
BSE Sensex	**73,427.60**	**57,084.90**	**28.60%**

Source: www.bseindia.com

What more can we say about volatility? The blue chip S&P BSE Sensitive Index has fluctuated 28.6% during the last 52 weeks. There are several constituents, even sedate utility companies and supposedly "safe-haven" stocks that have fluctuated much more than the Index. The only conclusion that we can come to is that volatility is part-and-parcel of the stock market and is not the true measure of risk. If we agree with Howard Marks' observation that risk is "uncertainty about which outcome will occur", then volatility certainly is not risk, because we know that volatility will occur in the stock market.

Dear Investor, we think that the "unfavourable outcome" that Howard Marks is talking about is "permanent loss of capital", and this is the ONLY risk that matters to any investor in the stock market.

The most important job of any investor, therefore, is to follow an investment process that reduces the chance of this unfavourable outcome. The reduction of the chances of failure automatically enhances the chances of success (this may be a very unglamorous path to make money, but we think it is a path filled with less anxieties).

How do we reduce the chances of permanent loss of capital? We can do that by identifying the causes of permanent loss of capital and incorporating ways to reduce the incidence of these causes in our investment journey. In our opinion, the four most important causes of permanent capital loss are:

(a) Investing in a weak or deteriorating business.

(b) Investing in a company where the management has displayed a tendency of not respecting minority shareholders' rights.

(c) Buying the shares at exorbitantly high prices.

(d) Being bothered too much about how much money someone else has made in the stock market.

The last cause is, in our opinion, the root cause of the other three. If we just eschew our desire to have the "best" returns at all points of time, but rather focus on consistently having a "good" return, we believe that we would have reduced the chances of permanent capital loss significantly. The anxiety to "beat everyone else always" leads one to either dilute the quality of what is being purchased, or take risks that are not necessary to be taken, or both.

"Risk comes from not knowing what you are doing".
Warren Buffett

We think that this quote from Buffett hits the nail on the head. We also have to take a hard look at ourselves and determine what we really understand and what we don't. If, even after spending a reasonable amount of diligent effort, some businesses are beyond the scope of our understanding, we submit that there is no point in trying to act intelligent.

It would be pertinent here to describe the environment under which we operate:

There are thousands of investors in the stock market;

It would be less than accurate to describe ourselves as more intelligent than all the other investors;

Almost all investors (especially professional investors) have access to the same information, and databases that are available with us;

Given this background, we would just be kidding ourselves if we assume that we possess, on a sustainable basis, the ability to out-analyze everyone else in all the businesses that we choose to invest in;

Therefore, if we seek to avoid the risk of "not knowing what you are doing", our best bet is to be clear about what we know and what we do not, and more importantly, do not commit monies into businesses where our level of understanding is less than satisfactory.

The other relevant point is that it is not always necessary to invest in "cutting edge" businesses or highly complex businesses in order to make profits in the stock market. As we have seen repeatedly, mundane and simple businesses, as well as very old-fashioned businesses give very good returns indeed, if only we buy them at appropriate prices.

Appropriate prices in stocks come hand-in-hand with apprehensions, doubts and fears about the underlying company's immediate prospects. The ability to ignore the shorter-term problems of the concerned company (provided of course that there is really nothing wrong that we can perceive about the company's longer-term ability to compete) is what makes the crucial difference between success and failure in investing.

This way, we can expect to make a decent return without subjecting our monies to unnecessary levels of risk.

With warm regards,

Yours sincerely,

(E A Sundaram)
Chief Investment Officer and Portfolio Manager.

"Investors should always keep in mind that the most important metric is not the returns achieved but the returns weighed against the risks incurred. Ultimately, nothing should be more important to investors than the ability to sleep soundly at night."

Seth Klarman

Disclaimer:

Please note that the entity formerly known as o3 Securities Private Limited has been officially renamed as BugleRock Capital Private Limited. The new entity name has been duly updated with the Registrar of Companies (ROC) as per applicable regulatory requirements. However, it is imperative to acknowledge that the process of obtaining approval from the Securities and Exchange Board of India (SEBI) is ongoing. Therefore, while efforts are being diligently made to comply with all regulatory obligations, the final approval from SEBI is pending. Recipients are advised to exercise discretion and refrain from making any assumptions or decisions solely based on the updated entity name until such time that formal confirmation from SEBI is obtained. Any actions taken based on this information are at the sole discretion and responsibility of the recipient.

Investment Objective:

The investment objective is to achieve capital appreciation through investment in a diversified portfolio of high-quality companies, purchased at reasonable valuation.

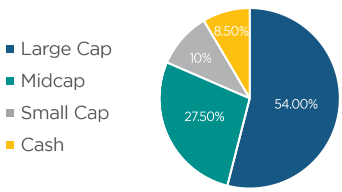
o3 Core Value Investment Approach

Name	GICS Sector	Weight
HDFC Bank Ltd	Financials	7.34%
ITC Ltd	Consumer Staples	6.42%
Maruti Suzuki India Ltd	Consumer Discretionary	4.68%
Indraprastha Gas Ltd	Utilities	4.60%
Asian Paints Ltd	Materials	4.41%
Bosch Ltd	Consumer Discretionary	4.38%
Infosys Ltd	Information Technology	4.31%
Oracle Financial Services Software Ltd	Information Technology	3.68%
Crisil Ltd	Financials	3.66%
State Bank of India	Financials	3.58%
		47.06%

Overweight/Underweight of Model Portfolio Compared to Benchmark

	Underweight | Overweight
Consumer Discretionary	10.02%
Industrials	6.36%
Real Estate	2.27%
Health Care	1.66%
Utilities	0.55%
Consumer Staples	-1.20%
Information Technology	-1.67%
Communication Services	-2.74%
Materials	-4.55%
Energy	-8.98%
Financials	-10.22%

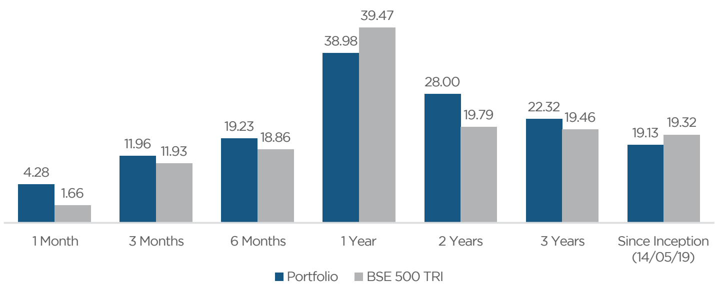
Performance Description	Regular	Concentrated	BSE 500 TRI
Largest Monthly Gain	12.51	11.41	14.63
Largest Monthly Loss	-20.53	-19.19	-23.85
Beta of Portfolio	0.76	0.74	
Standard Deviation (Annualised)	15.20	14.91	
Correlation	0.92	0.91	



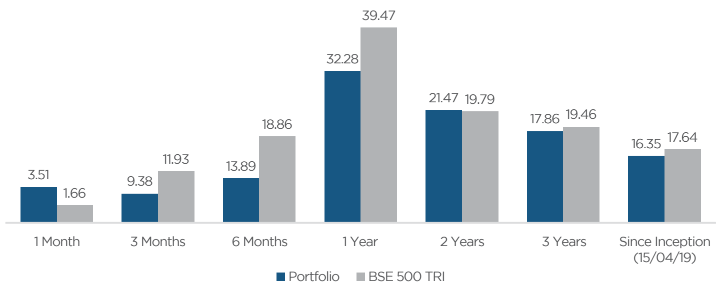
Regular Model Portfolio Composition

Weighted Average ROCE	27.14%
Portfolio PE (1 year forward PE, based on FY25)	31.75
Portfolio Dividend Yield	1.06%
Average Age of companies	47 Years
Overlap with BSE 500 TRI	22.08%
Total Debt/Equity	0.19
Debt/Equity (Excluding Financial Stocks)	0.10
Sales Growth	22.93%
EPS Growth (FY25 over FY23)	12.85%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option 29th February 2024



Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 29th February 2024



- *Benchmark is BSE 500 TRI, the portfolio is spread across different market capitalization, hence BSE 500 TRI is chosen as benchmark.*
- *Since inception date stated is considered to be the date on which the first active client investment was made under the investment approach.*
- *All the data are as of 29th February 2024. ROCE/ROE are average of last 5 years.*
- *Source: Internal, BSE, Bloomberg & Ace Equity.*

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 for the overall investment approach. Past performance is no guarantee of future returns. The above portfolio performance is after charging expenses. The above performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document. Beta, Standard Deviation & Correlation are from Since Inception period.