o3 wealth & asset management

"Nifty is at 19740. Is it safe to invest at these levels?" and other questions.

Dear Investor,

Some of the questions that we keep getting asked when the market has sharply risen to all-time-high levels are the following:

- The market is already too high. Should we invest now?
- There is an election coming up next year. We don't know who is going to win? Should we invest now?
- Is it better to invest in Large Caps, Mid-caps, or Small Caps? Especially since Small-Cap stocks have done much better in the last few months.

There will be more questions. They will arise as we go along. The primary reason for these questions is that there is an underlying fear of either not losing money, or an urge to maximise returns by trying to time the market entry.

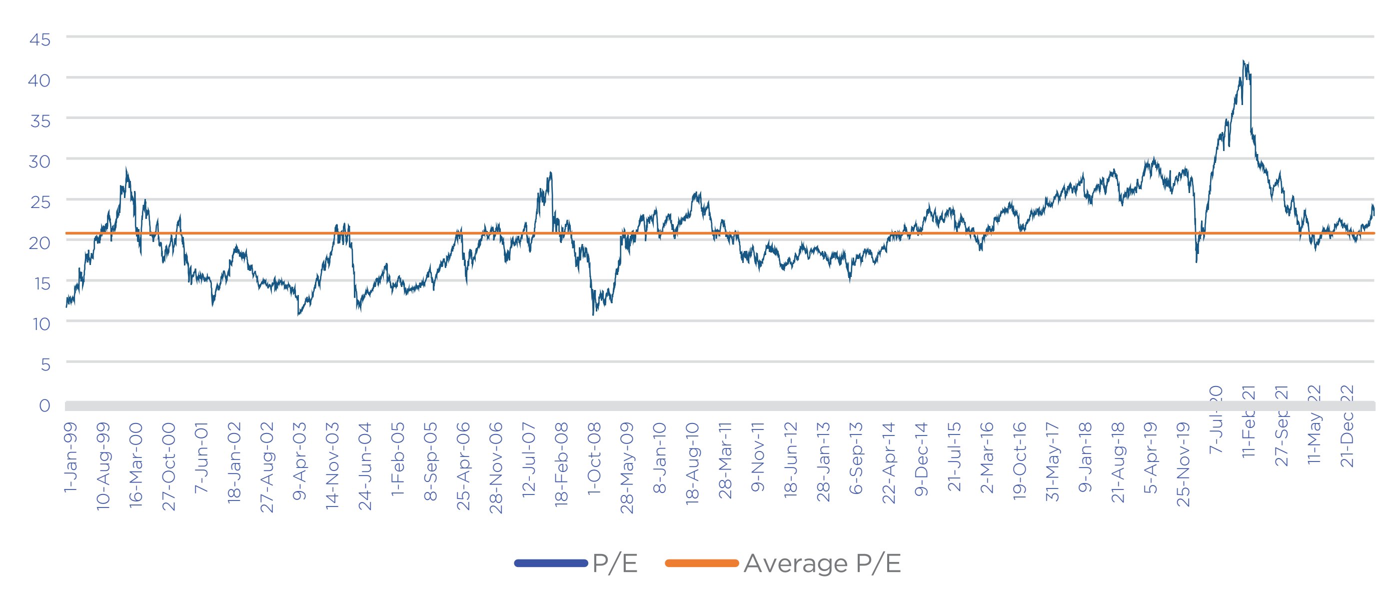
The first thing to acknowledge is that things will ALWAYS remain uncertain. The movement of the stock prices is a function of hundreds of variables, of which very few are within our control. Our job is to reduce the risks in the portfolio (business risk, management risk, and price risk) to the extent we can, and try to make choices where, after careful consideration, we can judge that the positives outweigh the negatives.

Now let us look at some of these questions:

Isn't the market at too high a level?

The number 19000 (for the Nifty 50 index) is, in our opinion, meaningless unless we look at the underlying valuation numbers of the Index. Here's the PE multiple history of the Nifty Index, and the dividend yield valuation history of the Nifty Index:

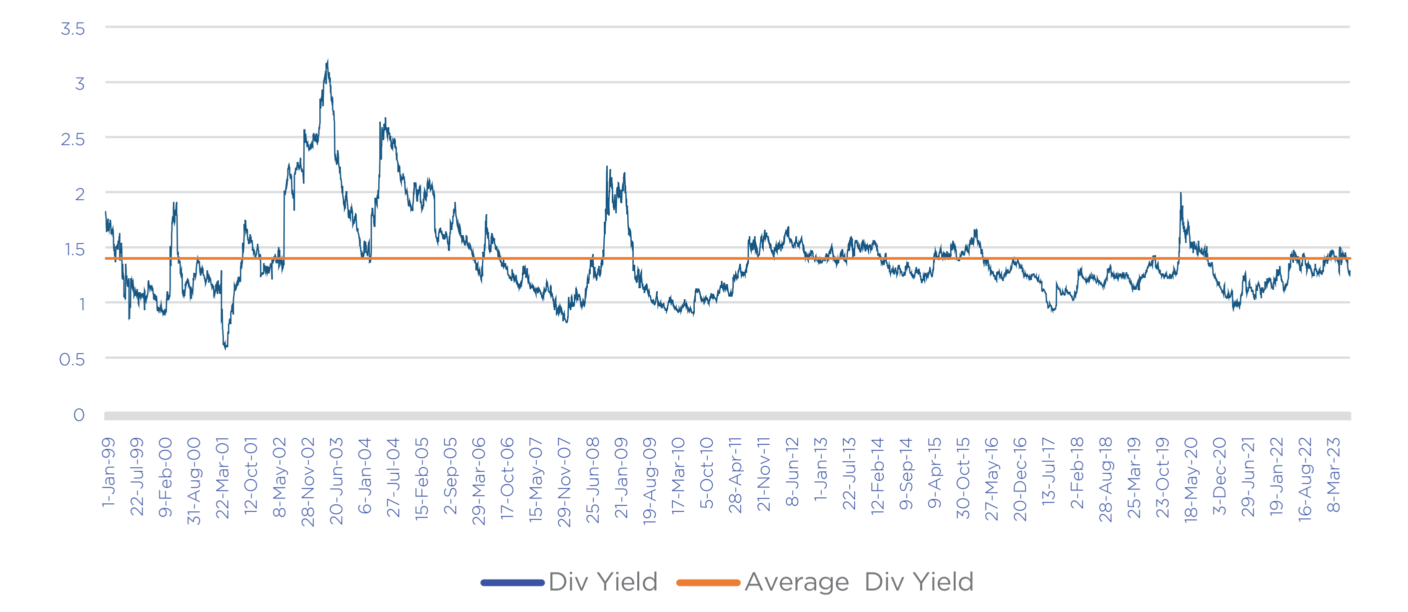
Nifty 50 Index - PE history



Source: NSE (chart updated till July 28th, 2023)

As is seen from the chart above, the PE valuation of the Nifty 50 Index is slightly above its long-term average.

Nifty 50 Index - Dividend yield history



Source: NSE (chart updated till July 28th, 2023)

In terms of the dividend yield valuation metric, the valuation of the Nifty 50 Index is not too different from its long-term average.

The "market" and "the Index" are not the same thing.

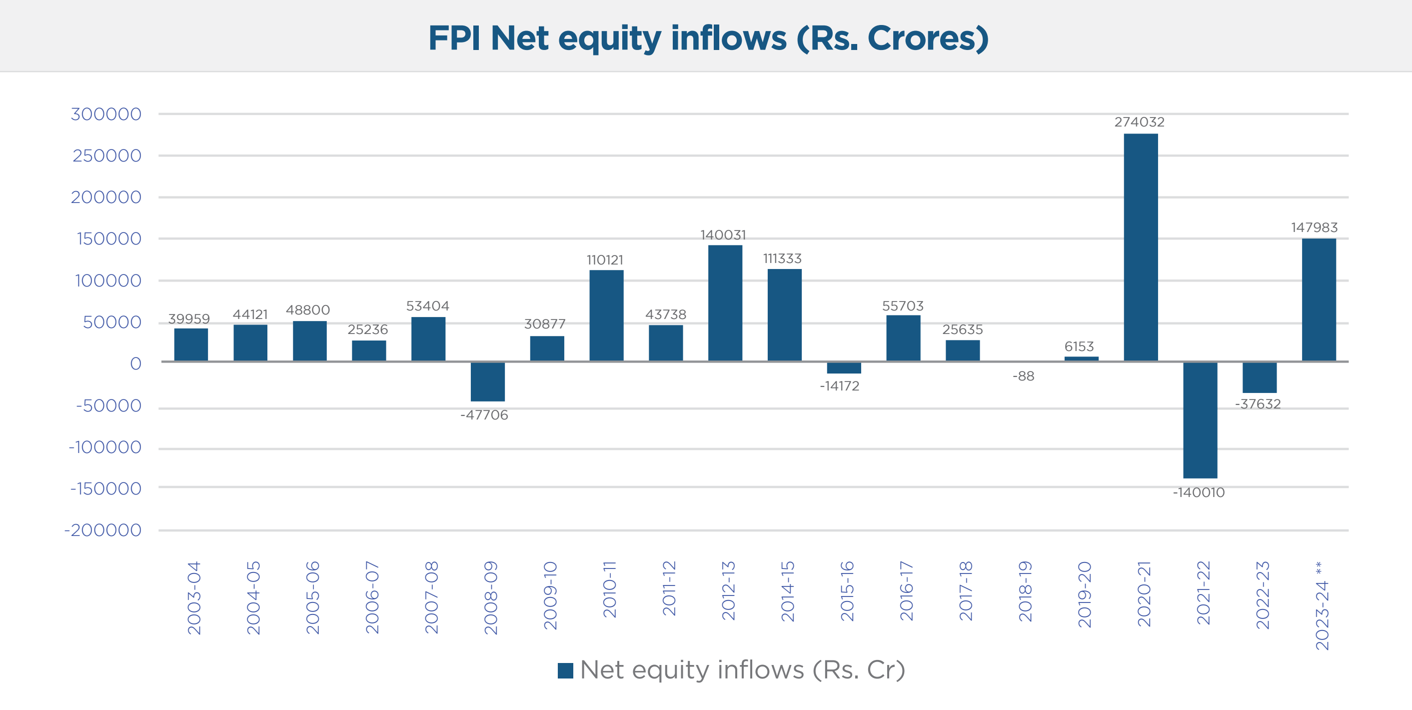
The valuation of the Nifty 50 Index is relevant only if one wants to invest in a Nifty 50 Index Fund. For a bottom-up stock picker, or for a portfolio where the overlap with the Index is not very high, the point to remember is that there are opportunities outside of the Index, at any point of time. Even today, when the Nifty is at an all-time high, we believe that there are good quality companies whose stocks are quoting at well below their long-term average valuations. Indeed, this had been the case almost all the previous market booms, including the 1999-2000 Technology boom, the 2007 real estate and infrastructure boom, the 2016 mid and small cap boom, and the 2018 NBFC sector boom. The "market" is more than the fifty companies represented by the Nifty 50 Index.

Does it mean that the stocks of companies that we buy will never fall?

Not in the least. ANY stock can fall. But our submission is that if we buy into the stock of a strong business, with a strong balance sheet, and an undiminished ability to compete, and we are confident that we did not part with an exorbitant price while purchasing it, a fall does not cause panic. Panic occurs when there is a fall in price of a stock that we bought without proper understanding of why we bought it, or without confidence that we paid not more than a fair price for it.

A few months ago, a dominant question was about continuous selling by Foreign Portfolio Investors from India:

Foreign Portfolio Investors (FPIs) are a dominant class of investors, and often they change the investment sentiment through their actions. In the last couple of years, they had mostly stayed away from India, causing considerable consternation amongst a segment of investors and commentators in India. However, they have recently returned to investing in India, and with a bang:



*Source: NSDL, **Up to 28th July 2023.*

As can be seen from the table above, the FPIs, in the last three months, have brought back almost the entire amount they had sold in the past two years.

Isn't there an uncertainty caused by the ensuing elections in 2024? What do we do as investors?

An election is definitely an important political event, but as investors we have to remember it has very little long-term implications. We firmly believe that while as citizens we need to be politically aware, as investors, we need to be politically neutral.

For the sake of comparing the movement of the BSE Sensitive Index (from its inception date) under the various political dispensations, we have compiled the following table:

Coalition	Prime Minister	Tenure	Movement of Sensex % per annum
Janata Party	Mr. Morarji Desai	4 months	15.86%
Janata Party	Mr. Charan Singh	8 months	5.43%
Congress	Mrs. Indira Gandhi	4 years 8 months	20.28%
Congress	Mr. Rajiv Gandhi	5 years	20.82%
Janata Dal	Mr. V.P. Singh	11 months	73.43%
Janata Dal	Mr. Chandrashekhar	8 months	6.15%
Congress	Mr. P.V. Narasimha Rao	4 years 11 months	24.46%
NDA	Mr. A.B. Vajpayee	13 days	2.30%
United Front	Mr. H.D. Deve Gowda	11 months	3.10%
United Front	Mr. I.K. Gujral	10 months	1.30%
NDA	Mr. A.B. Vajpayee	18 months	9.24%
NDA	Mr. A.B. Vajpayee	4 years 7 months	1.50%
UPA	Dr. Manmohan Singh	5 years	22.59%
UPA	Dr. Manmohan Singh	5 years	12.47%
NDA	Mr. Narendra Modi	5 years	9.48%
NDA	Mr. Narendra Modi	4 years 2 months (*)	13.36%

Source: Internet sources, (*) as of 1st August 2023

Please note that data about the BSE Sensitive Index is available from 1st April 1979.
Some interesting takeaways not reflected in the table above:

- Under Mr. P.V. Narasimha Rao's tenure as PM, the first year saw 200% return in the Sensex. The other 4 years were negative. Overall, the returns were 24.46% p.a.
- One of the biggest bull markets this country has seen happened when there was a "minority government, supported by the Left parties" was in power at the Centre.

The way we see it, we would be better off if we focussed on buying businesses that would do well irrespective of who is going to win the next elections and try to buy them at prices that are not exorbitant.

Relative merits of Large-cap, Mid-cap, and Small-cap stocks

Often, we are asked this question, about which category is better. Usually, this question arises only after a particular category of stocks does very well.

It is our firm view that rather than classify companies on the basis of their capitalization levels, it is better if we classified them as "good businesses" or "mediocre businesses."
We believe that these three categories (large, mid, and small cap) are an essential part of any investor's portfolio. At the same time, we also believe that none of these categories is really superior to any of the others.

This is how Large-cap, Mid-Cap and Small-Cap categories of stocks have done (data as of 31st July 2023). Please remember that these can change significantly next year. What does not change, however is the fact that over the long-term, there is near convergence in the performance of these indexes. The cause of the main difference is the drawdown (difference between a peak and the next trough in a cycle) in different indexes:

	Returns (CAGR returns per annum)				Maximum drawdown			
	Last 1 year	Last 5 years	Last 10 years	Last 15 years	Last 1 year	Last 5 years	Last 10 years	Last 15 years
S&P BSE Sensitive Index	15.53%	12.75%	12.91%	10.61%	-8.94%	-37.91%	-37.91%	-47.11%
S&P BSE Midcap Index	26.50%	14.89%	18.81%	11.98%	-10.92%	-41.53%	-45.50%	-57.13%
S&P BSE Smallcap Index	29.43%	17.37%	21.06%	11.57%	-12.61%	-47.46%	-54.69%	-60.58%

Sources : (1) BSE (2) Bloomberg

To conclude, dear Investor, it is good if we remember that investing in the stock market means that we accept that there are going to be uncertainties, and we take calculated bets on companies that, in our judgement, can handle uncertain situations better. Paying a reasonable price for such businesses reduces the fear caused by such uncertainties.

Ultimately, as investors, there are only three things that are under our control:

- What we buy,
- How much of it we buy, and
- At what price we buy it.

Any factor beyond these three is not controllable by us.

We believe that remembering this point will force us to pay more attention to risk reduction, which is what investing is all about.

Yours sincerely,

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

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." - Charlie Munger.

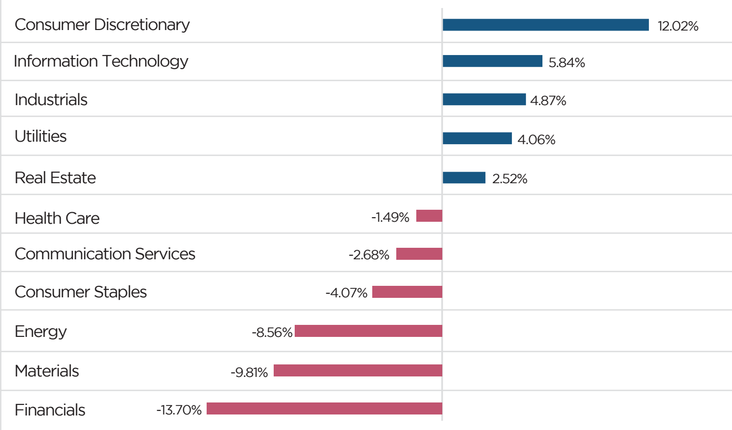
Investment Objective:

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

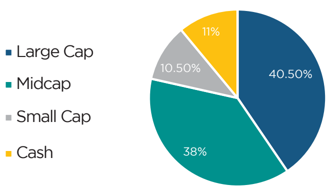
o3 Core Value Investment Approach

Name	GICS Sector	Weight
HDFC Bank Ltd	Financials	5.71%
ITC Ltd	Consumer Staples	5.64%
Infosys Ltd	Information Technology	3.99%
Sun Pharmaceutical Industries Ltd	Health Care	3.85%
Indraprastha Gas Ltd	Utilities	3.84%
Maruti Suzuki India Ltd	Consumer Discretionary	3.80%
Divis Laboratories Ltd	Health Care	3.74%
Larsen & Toubro Ltd	Industrials	3.71%
Titan Company Ltd	Consumer Discretionary	3.58%
Bosch Ltd	Consumer Discretionary	3.54%
		41.40%

Overweight/Underweight of Model Portfolio Compared to Benchmark



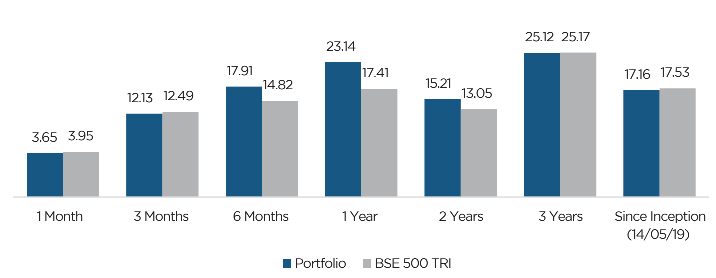
Performance Description	Regular	Concentrated	BSE 500 TRI
Largest Monthly Gain	12.51	11.41	14.63
Largest Monthly Loss	-20.53	-19.19	-23.85
Beta of Portfolio	0.76	0.73	
Standard Deviation (Annualised)	15.81	15.45	
Correlation	0.93	0.91	



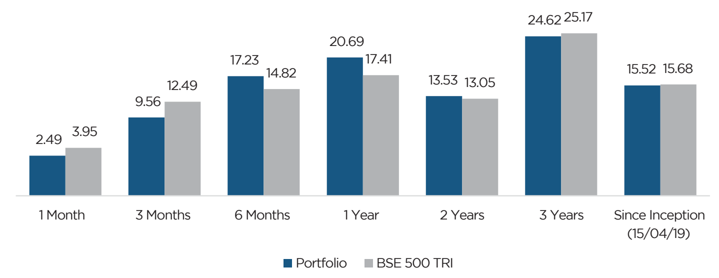
Regular Model Portfolio Composition

Weighted Average ROCE	22.86%
Portfolio PE (1 year forward PE, based on FY25)	23.12
Portfolio Dividend Yield	1.50%
Average Age of companies	51 Years
Overlap with BSE 500 TRI	22.65%
Total Debt/Equity	0.39
Debt/Equity (Excluding Financial Stocks)	0.16
Sales Growth	20.78%
EPS Growth (FY25 over FY23)	14.56%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option 31st July 2023



Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 31st July 2023



- *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 above data are as of 31st July 2023*

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.