o3 wealth & asset management

The strange habit of pre-deciding the stock market returns.

Dear Investor,

One very interesting characteristic that one can observe about several investors is that the expectation of returns from the stock market varies widely. It is also dependent upon, and is proportionate to, the extent of movement the stock market has displayed in the immediately preceding few months.

A conversation on this topic immediately after a strong bear market (and we have had several such conversations in March-April 2020) is likely to keep most estimates quite conservative. Amongst those who are willing to venture into stock market investing during those times, many of them would just say that they would be happy with a rate of return that beats inflation, or one that beats "fixed deposit returns".

Fast forward to a bull market environment, and the expectations change dramatically. Even the expectation of a 25% return seems too conservative, especially in sectors or segments of the market that have recently done very well.

There are two questions to be answered here:

(a) What is the reason for this phenomenon, and

(b) Is it possible to pre-decide how much we would make from an equity investment?

Why does this happen?

The truth is that for a great majority of us, the expectation of returns from the stock market is a function of how much returns we have observed others make recently. Strangely, the expectations of higher returns increase AFTER the stock prices have already risen. And it is worth remembering here that for any asset, the chances of returns increase when the asset is purchased at lower prices, rather than higher. A decision to purchase should ideally be dictated by the business fundamentals behind the stock, and the valuation at which it is quoting, and not the fear of missing out. When the fear of missing out (FOMO) dictates our investment decision making, our submission is that the results would be less than satisfactory.

The returns earned by us from a stock is a function of many variables, and almost all of them are beyond our control.

- The continued competitive position of the company
- The growth in profits and cash flows shown by the company.
- Funds flows into the equity market.
- Prospects seen for the company's future growth.
- Macroeconomic factors
- Geopolitical factors
- How the expectations about the stock change for the rest of the participants in the market
- Based on the previous point, how much the market participants are willing to pay for the stock

How many of these factors can we really control? And without a firm control on these factors, can one seriously hope to predict how the returns would be on the stock? We think it is beyond the scope of investors to control all of these factors at once, and therefore beyond the scope of capabilities to pre-determine how much returns we would make from the stock market.

This is the reason why we are wary of predicting if stock A is capable of giving x% returns, or stock B is capable of giving y% returns. We have observed, over the years, that (a) stocks of companies with excellent fundamentals can remain in a sideways movement for several years and (b) stocks of companies with less-than-excellent fundamentals can sharply soar, tempting us with its price movement.

It is therefore our considered opinion that it is much better to focus on "why" a stock should do well, rather than on an undue focus on "when" it will do well.

The Core Value portfolio is an extension of this thinking. Our focus primarily is on buying and holding on to a set of strong and competitive businesses at prices that we believe are reasonable. We really do not focus on how much returns we can make, or when, because these are not under our control. We firmly believe that a focus on the process of buying a good business at a good price would lead to a decent return without subjecting the client's money to unnecessary levels of risk.

We would like to conclude with a marvellous quote from the great investor Seth Klarman, and it is very germane to the point we have discussed in this newsletter.

> ***"An investor cannot decide to think harder or put in overtime to achieve a higher return. All an investor can do is follow a consistently disciplined and rigorous approach; over time, the returns will come."***
>
> ***Seth Klarman***

With warm regards,

Yours sincerely,

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

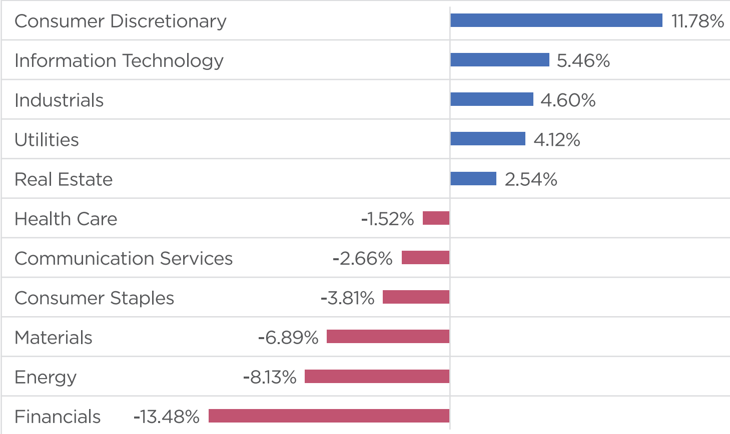
Investment Objective:

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

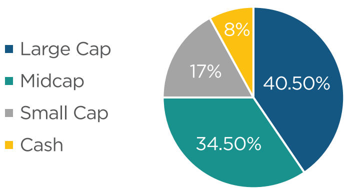
o3 Core Value Investment Approach

Name	GICS Sector	Weight
HDFC Bank Ltd	Financials	6.26%
ITC Ltd	Consumer Staples	5.25%
Infosys Ltd	Information Technology	4.20%
VST Tillers Tractors Ltd	Industrials	3.97%
Maruti Suzuki India Ltd	Consumer Discretionary	3.94%
Indraprastha Gas Ltd	Utilities	3.91%
Titan Company Ltd	Consumer Discretionary	3.73%
Oracle Financial Services Software Ltd	Information Technology	3.69%
Thermax Ltd	Industrials	3.62%
Sun Pharmaceutical Industries Ltd	Health Care	3.61%
		42.18%

Overweight/Underweight of Model Portfolio Compared to Benchmark



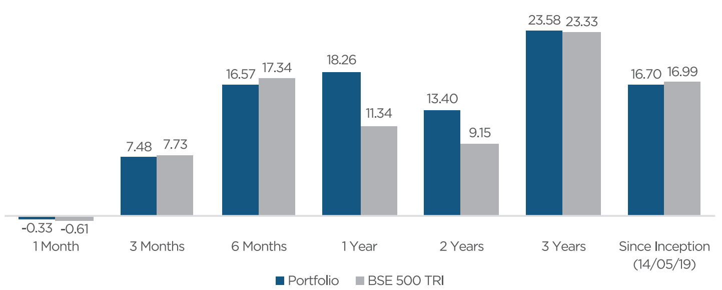
Performance Description	Regular	Concentrated	BSE 500 TRI
Largest Monthly Gain	12.51	11.41	14.63
Largest Monthly Loss	-20.53	-19.19	-23.85
Beta of Portfolio	0.76	0.73	
Standard Deviation (Annualised)	15.68	15.34	
Correlation	0.93	0.91	



Regular Model Portfolio Composition

Weighted Average ROCE	23.03%
Portfolio PE (1 year forward PE, based on FY25)	23.62
Portfolio Dividend Yield	1.55%
Average Age of companies	50 Years
Overlap with BSE 500 TRI	22.55%
Total Debt/Equity	0.13
Debt/Equity (Excluding Financial Stocks)	0.05
Sales Growth	20.34%
EPS Growth (FY25 over FY23)	14.73%

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



Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 31st August 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 August 2023.*
- *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.