

It's simple, but not easy.

Dear Investor,

Over the years, I have had the good fortune of meeting, interacting with, and learning from several great investors, and am struck by some of the common characteristics that define them.

This newsletter is an attempt to list out the salient characteristics that define the successful investors, at least in my observation. I have also taken the liberty of using the quotes of great investors from around the world to supplement the case.

Here are these characteristics:

1) They clearly demarcated what was known (and not known) to them and were honest about it.

Investing is not just about studying companies and industry trends. Equally importantly, Investing is about studying ourselves. None of us can hope to understand everything there is to know about all industries, especially the newer technologies.

There will be some businesses, especially highly technical businesses/newer technologies that are beyond our complete understanding. If, even after making a reasonably diligent attempt at understanding them, we find that we are not able to completely get around the idea, it is perfectly fine to avoid them in our investment plan. There is no necessity for everyone to know everything, and more importantly, there is considerable danger when there is a combination of ignorance and invested money.

The returns from investing in a highly complicated business aren't always better than investing in a perfectly mundane and old-fashioned business. And many times, the perfectly mundane and old-fashioned businesses generate higher returns than the complicated ones.

"Knowing what you don't know is more useful than being brilliant." - Charlie Munger

2) They DID NOT begin with a target return in mind.

Another characteristic of highly successful investors is that they do not decide in advance about how much money they intend to make from each of their investments. They just focus on buying a good business at a good price. The returns are considered a by-product of the investment process.

Also, several successful investors do not mind underperforming from time to time. The great Warren Buffett (easily one of the greatest investors in the world) has underperformed the S&P 500 index in one-third of the years during the past 55 years. It is easy to conclude that he didn't lose sleep in those years.

The volatile nature of the equity market makes me wonder about the suitability of the concept of "time value of money" when it comes to equity shares. I have come across several excellent investors who have explained in advance "why" their investments would do well but have not spoken about "when" they expect these investments to do well. They had understood what is within their control and what is not.

"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

3) They did not attempt to ape anyone else. They were themselves.

It is said that the biggest menace of a cop is the self-appointment as Sherlock Holmes. Similarly, the biggest menace to any aspiring investor is to self-appoint oneself as the next Warren Buffett or some other great investor.

Being ourselves is vital in building an investment process that is germane to our temperament.

Since it is our money that we are investing, it is logical that the investment plan should suit our temperament.

Invariably, successful investors have been consistent and faithful in their approach, and most importantly, they did not try to ape somebody else. They were themselves.

The recipe for disappointment is created when highly intelligent persons develop a tendency to expect the world to move according to how they think it should move. Accepting the world for what it is leads to a better temperament with which a process can be created.

4) They never ever bothered about how much money someone else had made.

If I were to name the single most important error that is the cause of permanent damage to a portfolio, it is this. Too many people are obsessed about how much money someone else has made. And the intolerance of the situation in which someone else makes more money leads to taking crazy risks that are completely avoidable.

If someone makes more money, there are several possible causes:

- (a) The other person is a better investor.
- (b) The other person was luckier.
- (c) The other person made more money this year. Maybe we will make more next year.

There's no doubt that the capital market is the epitome of competitiveness. That is what it is all about. However, that does not mean that to be a successful investor, we must ALWAYS be at the top of the performance table.

“Investing isn't about beating others at their game. It is about controlling yourself in your own game.” - Benjamin Graham

5) They were fully aware of the extent of interest displayed by the rest of the market about a single stock, or a sector.

Buying at a price that is not exorbitantly high is a vital ingredient in successful investing. Which is why as investors, we should be aware of the extent of interest displayed by the rest of the market. The relative valuation of the stock, the number of enthusiastic “Buy” reports, its market price in relation to its intrinsic value (based on reasonable assumptions) are all indicators of how the rest of the market feels about the same stock.

Being aware of the extent of interest displayed by the rest of the market is not the same as following the rest of the market wherever it goes. The thought process of the rest of the market is what helps determine whether the stock, in our judgement, is within a reasonable price limit or not.

Invariably, the great investors have been well aware of the extent of interest and hype around the stocks they are tracking. Ignoring the hype and staying away is a discipline that leads to avoiding expensive errors. By avoiding investing in the hot new sector, all that we need to lose is some bragging rights on the social circuit. I submit that it is better to lose such a bragging right than to lose money.

“Every significant price movement of any individual common stock in relation to stocks as a whole occurs because of a changed appraisal of that stock by the financial community.” - Philip Fisher

6) They were clear about what was in, and what was not in their control.

I am amazed at what is now called “WhatsApp University”. These are some of the topics that this University has enabled people to talk about:

- (a) How exactly the war in Ukraine can be brought to a conclusion.
- (b) Where exactly the rupee-dollar rate would settle
- (c) How many seats each political party would win in the next election.
- (d) Long-covid

No doubt, these are important issues, but these are certainly beyond any individual’s control.

As an investor, there are only a few things that are within my control:

- (i) What I buy.
- (ii) How much of it I buy.
- (iii) At what price I buy.

I find that it is unfortunate that the conversations about the factors beyond our control vastly exceeds the topics that are within our control.

7) They paid particular attention to the price they paid for a stock.

Yes, there are times when we witness a frenzy buying in a stock or sector, and there is a strong feeling of FOMO (fear of missing out). But just as in every other form of economic activity, WHAT WE PAY for buying an asset has an important bearing on how much profit we can expect to make out of it, so too, in the stock market, the price at which an asset is purchased is an important determinant of the future returns.

During such times of market frenzy, it is the discipline of staying away from stocks that, upon reasonable analysis, seem too expensive, is what separates the great investors from the others.

Remember, a stock is not more attractive simply because a great many participants in the market seem to think so.

“Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results.” - Warren Buffett

Dear Investor, I began this newsletter by writing that “It’s simple, but not easy”. What makes it difficult is the peer pressure when we underperform, and the comparisons with the returns that the others have made during a period.

Successful investors choose to ignore the peer pressure and resist the temptation to always do better than the others. It is this discipline, and not superior intelligence, that matters in the long run.

Warm regards

Yours sincerely,

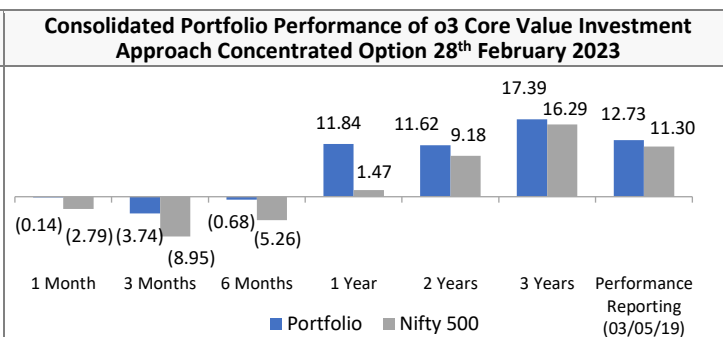
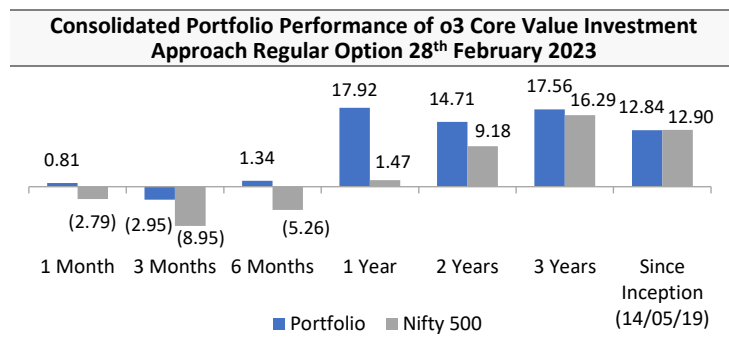
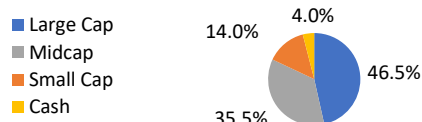
E A Sundaram

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			Regular Model Portfolio Data	
Name	GICS Sector	Weight	Underweight	Overweight
ITC	Consumer Staples	5.99%		10.42%
HDFC Ltd	Financials	5.36%		6.65%
Indraprastha Gas Ltd	Utilities	4.79%		6.00%
Bosch Ltd	Consumer Discretionary	4.55%		2.48%
Divis Laboratories Ltd	Health Care	3.94%		0.95%
Bharat Dynamics Ltd	Industrials	3.89%		0.54%
Asian Paints Ltd	Materials	3.74%	(0.78%)	
Titan Company Ltd	Consumer Discretionary	3.73%	(2.66%)	
Maruti Suzuki India	Consumer Discretionary	3.52%	(6.20%)	
Sun Pharmaceutical	Health Care	3.47%	(8.96%)	
		42.98%	(12.43%)	

Performance Description	Regular	Concentrated	Nifty 500	Regular Model Portfolio Composition	
Largest Monthly Gain	12.51	11.41	14.52	Weighted Average ROCE	23.24%
Largest Monthly Loss	(20.53)	(19.19)	(24.25)	Portfolio PE (1 year forward PE, based on FY24)	28.28
Beta of Portfolio	0.76	0.74		Portfolio Dividend Yield	1.57%
Standard Deviation (Annualised)	16.47	16.07		Average Age of companies	59 Years
Correlation	0.93	0.92		Overlap with Nifty 500	20.42%
				Total Debt/Equity	0.42
				Debt/Equity (Excluding Financial Stocks)	0.09
				Sales Growth	19.52%
				EPS Growth (FY24 over FY22)	21.95%



- 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 active client investment was made under the investment approach
- Industry Classification as recommended by AMFI, all the above data are as of 28th February 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 and then computing arithmetic average for the overall investment approach. 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. Beta, Standard Deviation & Correlation are from Since Inception period.

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