

On uncertainty, panics, and stock market investing

Dear Investor,

As we write this, once again the scourge of Covid-19 is being felt all over the country. The number of recorded cases in the country has crossed 18 million, and the daily count has crossed 360000. The second wave of Covid in India has been more widespread than the first.

Our prayers are with all affected families, and we hope that a semblance of normalcy returns to the country soon. We do not wish to second-guess or offer our suggestions about how exactly this situation is to be handled. There are better qualified and capable people handling such things. Our topic of discussion in this month's newsletter is our answer to the queries that we have received from various quarters about handling the investments during times of "uncertainty".

**The myth
about
"certainty"**

Our learning over 3 decades of investing is that the future is never certain. Many investors make the mistake of giving a negative correlation between the level of confidence displayed by market participants and the extent of "uncertainty" in the stock market. In other words, when the market price of the stock or the Index is going up, it is assumed that there is no uncertainty. Conversely, when there is a bearish trend in the market, the talk of "uncertainty" crops up more.

The BSE Sensitive Index peaked recently on 16th February 2021 (at 52516.76). As we write this newsletter today, the same index is at 49733.84. A few days ago, it had fallen to 47705. That is a fall of about 9.2% from the peak. We do not want to get into discussions about how much further the index will fall. We want to address the more important issue of handling "uncertainty" and continuing to invest in the stock market.

We have repeatedly said before in our earlier newsletters that there are simply too many variables that determine how the price of a company's share moves, or how an overall index moves. These factors are in nobody's control. The appropriate option available with us is to identify the four or five important factors in each company's business/stock price and try to see if they are favourable to us as investors.

Waiting for "uncertainty" to end before investing is like waiting for the waves on the beach to stop before entering the water. We are NEVER going to get full information on the market, or about any single company. As investors, we must decide what are the important factors to consider that are in our favour (like continued competitiveness of the company, prospects of growth, competence of the management, willingness to give importance to minority shareholders' interest, and the price at which the share is available) and then proceed to invest if, in our judgement, the potential benefits exceed the negatives.

Let us not forget that there will always be unforeseen events and surprises, sometimes positive, and sometimes negative. How we respond to these events is far more important than trying to predict them in advance. We cannot.

Let us look at several periods in this country's history over the last 3 decades plus. These events can certainly be described as seminal and caused considerable uncertainty during those times.

Period of uncertainty	Event	Movement of the BSE Sensitive Index			% fall from high to low	Time taken to recover
		High before the event	Low after the event	Regained the old level in		
1984	Mrs. Indira Gandhi's assassination	267.81	259.44	Dec-84	3.1%	Less than a month
1992	Securities Scam - Harshad Mehta times	4,546.58	2,529.59	Aug-94	44.4%	2 years 4 months
1993	Mumbai serial bomb blasts	2,677.93	1,980.08	Aug-93	26.1%	5 months
1999	Kargil war	4,197.08	3,363.06	Jul-99	19.9%	2 months
2000	Technology boom	6,150.69	3,831.86	Jan-04	37.7%	3 years 11 months
2001	New York WTC terrorist attacks	3,267.93	2,594.87	Jan-02	20.6%	4 months
2001	Dec 2001 attack on Indian parliament	3,500.20	3,100.57	Feb-02	11.4%	2 months
2004	Asian Tsunami	6,617.15	6,069.33	Feb-05	8.3%	2 months
2008	Infra/real estate meltdown	21,206.77	7,697.39	Nov-13	63.7%	5 years 10 months
2008	Mumbai terror attacks	10,945.41	8,316.39	Apr-09	24.0%	5 months
2016	Demonetization	28,029.80	26,447.06	Feb-17	5.6%	2 months
2020	Covid 19	42,273.87	25,638.90	Nov-20	39.4%	10 months

Data source: www.bseindia.com

All these events created “uncertainty” in the market. But none of them proved to be insurmountable. Of course, considerable loss was suffered by many people, depending upon the choices they made.

An interesting point about the data above is that prolonged bear markets were caused not by “uncertainty” caused by political events/terrorist attacks/natural disasters. Almost all prolonged bear markets have been caused by excessive valuations. For instance, after the sharp fall suffered by the market in March 2020 (caused by the panic during the initial weeks of the Covid pandemic, the market recovered to its earlier level in 10 months. But the market took 5 years and 10 months to recover after peaking in January 2008 (the fall caused by excesses in valuation).

Similarly, after peaking in early 2000 during the Technology boom where we witnessed sky-high valuations of 3-4 sectors, the market took 3 years and 11 months to recover to its earlier peak levels. In contrast, the market recovered in 2 months after the December 2001 terror attack on the Indian Parliament, and in 5 months after the horrific terror attack in Mumbai in November 2008 (events that can be safely considered as far more “uncertain”).

If the way ahead is uncertain, the optimum thing to do is to have strong companions during the journey into the future. Investing in strong and competitive businesses, and at prices that make economic sense are two of the most important tools in handling uncertainty.

Let us remember, uncertainty ALWAYS exists. It does not go away when the rest of the market is bullish or more confident. But there are smart ways to handle it. Warm regards,

Yours sincerely,

(E A Sundaram)

Chief Investment Officer and Portfolio Manager

“The future is never clear; you pay a very high price in the stock market for a cheery consensus. Uncertainty is actually the friend of the buyer of long-term values”.

Warren Buffett

Top 10 Holding of o3 Core Value Investment Approach - Regular Option as on 30 th April 2021			Overweight / Underweight of Regular Model Portfolio Compared to Nifty 500 as on 30 th April 2021	
Name	GICS Sector	Weight		
ITC	Consumer Staples	6.44%	Consumer Staples	9.76%
Oracle Financial Services Software	Information Tech	6.14%	Industrials	7.71%
Asian Paints Ltd	Materials	5.29%	Health Care	5.49%
Container Corporation of India	Industrials	4.94%	Consumer Discretionary	2.88%
Computer Age Management Services	Information Tech	4.67%	Real Estate	(0.62%)
Colgate-Palmolive (India)	Consumer Staples	4.66%	Materials	(2.38%)
Sanofi India	Health Care	4.07%	Communication Services	(2.69%)
HDFC Bank	Financials	3.90%	Utilities	(3.33%)
Kaveri Seed	Consumer Staples	3.87%	Information Technology	(7.36%)
Cummins India Ltd	Industrials	3.81%	Energy	(8.80%)
		47.79%	Financials	(12.67%)

Investment Objective: The investment objective is to achieve capital appreciation through investment in a diversified portfolio of strong businesses, purchased at reasonable valuation.

Regular Model Portfolio Details as on 30 th April 2021		Regular Model Portfolio Composition as on 30 th April 2021	
Weighted Average ROCE	26.39%	Large Cap	40.5%
Portfolio PE (1 year forward PE, Based on FY23)	22.44	Midcap	37.0%
Portfolio Dividend Yield	1.87%	Small Cap	10.5%
Average Age of companies	65 Years	Cash	12.0%

- Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on 30th April 2021
- Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on 30th April 2021
- Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on 30th April 2021

Regular Model Portfolio Composition as on 30 th April 2021	
Model Portfolio Overlap with Nifty 500	12.97%
Model Portfolio Overlap with Nifty 50	15.30%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option			Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option		
Period	30 th April 2021		Period	30 th April 2021	
	Portfolio	Nifty 500		Portfolio	Nifty 500
1 Month	(1.18)	0.41	1 Month	(0.11)	0.41
3 Months	9.23	9.40	3 Months	8.64	9.40
6 Months	29.32	29.04	6 Months	24.16	29.04
1 Year	43.83	54.31	1 Year	41.15	54.31
2 Years	12.53	13.10	Since Inception (14/05/2019)	11.71	16.49
Since Inception (15/04/2019)	11.65	12.14			

- 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 client investment was made under the investment approach

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 strategy. 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.*

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