

### *Reiterating a few learnings*

Dear Investor,

Over the many years that I have spent in the stock market, these are some lessons that I would consider valuable, and learnt through hard experience:

#### **(1) How much returns we earn from the stock market is NOT in our control.**

I have found immense value in this quote from the great Seth Klarman: “Investment returns are not a direct function of how long or hard you work or how much you wish to earn.... 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.”

There is really no rule, either man-made or Divine, that says that a stock has to move in a trajectory that is decided by the buyer. The short-term movement of any stock is a function of literally hundreds of variables. Since we have little control over those variables, it is really futile to predict the movement of the stock price, which is determined by these variables.

However, if we have a logical investment process, with focus on the reduction of expensive errors, we will lower the chances of failure, and therefore the chances of success are higher.

#### **(2) Stocks of excellent companies can frustrate us by not moving for an extended period.**

An extension of point no. (1) above is this point. It is easy to make the mistake of equating the quality of the underlying company to the short-term price movement of the company's share.

For this reason, several excellent companies are ignored and even ridiculed just because they did not move for a few years. A recent example of this phenomenon was ITC. The stock was stagnant between 2017 and 2022, by which time it had become the subject of many memes, which mocked the stock on social media. But the company continued to remain strong and competitive, which is what drives the stock price over the long-term.

#### **(3) Stocks that go up sharply within a short period do not necessarily represent good quality companies.**

According to the great Peter Lynch, one of the biggest errors that an investor can make is to equate the short-term price movement of the stock with the quality of the underlying company.

We have repeatedly seen, especially in big bull markets, several stocks hyped up to exorbitant levels. Enthusiastic “Buy” reports with highly optimistic projections about future performance, and a swarm of buyers who prop up the price are temptations for investors to participate in the rally.

Under such circumstances, we must remain disciplined and refrain from buying such companies if they do not meet the filters that we have set for ourselves, either in terms of company competitiveness, or price attractiveness.

**(4) Constantly trying to “beat everyone else” in the stock market is a definite recipe for disaster.**

Of course, the capital market is the epitome of competitiveness. There is therefore really nothing wrong in trying to earn a good return. But the problem comes when there is a constant need to earn a **better return** than everybody else.

We do not think that there is any portfolio that is not subjected to “underperformance” occasionally.

When we underperform, it means that our portfolio has performed worse compared to the market (as represented by an Index), or the bulk of competing products.

It is certainly undesirable if our portfolio underperforms for several periods continuously, but at the same time, it is also in our interest if our portfolio underperforms in certain market conditions like a raging bull market.

In a wild bull market, if we are outperforming, it only means that our portfolio is overweight on sectors or stocks that are already highly valued. In such a market condition, staying away from highly priced stocks means that there is an established risk reduction mechanism.

A careful observation of the market and its participants would show us that there is no investor or portfolio manager who is perennially at the top of the performance charts.

Different investment approaches are rewarded by the market at different points in time. What really matters is that the investor is consistent in his or her approach to investing, and that the approach is reasonably logical and has enough risk control measures in place to reduce the chances of permanent damage to the portfolio.

**(5) Determining our time horizon clearly is a good way to retain our sanity.**

The “market” consists of so many participants who have different approaches and time horizons concerning their investments.

What may make perfect sense for someone with a 1-week time horizon, may not make sense for someone who invests with a 3-year horizon.

The important point is that both may be right, from their respective point of view, but there is no consensus.

This scenario, which is unlikely to change, is likely to cause doubts in the minds of people who are unsure about the time horizon.

A firm commitment to our chosen time horizon would reduce the confusion caused by different voices and different opinions reflecting different time horizons.

There is no need for everyone to agree with our point of view. And we need not do the same with the other points of view.

**(6) “Good” is really better than “the best”.**

In the investment world, there are many “good” products. And there are several “not so good” products. But there is no “best” product.

However, an incredible amount of time is spent by several people in the search of the “best product”.

The “best” investment product is usually defined as the one that has given the highest return or the highest “risk-adjusted return” over a chosen period.

Any discerning observer can realize that the “best” does not remain in that position for very long.

A portfolio makes it to the “best” position when the sectors (or stocks) in which that portfolio has an overweight position have the approval of most buyers in the market. And as we have seen repeatedly, the market does tend to get extra lenient with its approval periodically.

**(7) Being constantly bothered about the approval of others in our stock market purchases means that we aren’t being ourselves, and that is not what the clients are paying for.**

If we want to beat a crowd, we should not be a part of it.

The approach of the Core Value portfolio is to buy the stock of a strong company when it is not very popular.

Popularity is measured by comparing the valuation of the stock to its longer-term average valuation and/or its estimated sustainable growth rate in earnings.

Until the stock turns popular, the investor would not be making money on this investment.

Our approach is that when there is an overwhelming popular support for the stock, it means that the level of expectations around its future performance is simply too high, and is more often than not, likely to lead to disappointment. Purchasing a stock when the level of expectations is not too high (in other words, when the chances of disappointment are fewer) strikes us as logical.

What provides us with the strength to persist with an unpopular stock is the quality of the company, the strength of its balance sheet, and our assessment about the company’s long-term competitiveness.

**(8) In the anxiety to fulfill one part of the job (i.e. generating returns), a portfolio manager should not forget the other part of the job (control the risk).**

Risk is the chance of an unsavoury event happening.

For an equity investor, the main risk is one of permanent loss of capital.

We think that the reduction of this risk (and it manifests itself in different ways) is an equally important job of the investor. By doing a diligent job at it, the investor can expect to earn a decent return, but that cannot be pre-decided.

Let’s remember Seth Klarman’s advice –

*“All that an investor can do is follow a consistently disciplined and rigorous approach; over time the returns will come.”*

**(9) There is no need to be proven right all the time. If, after careful evaluation, we realize that a mistake has been made, or if a superior opportunity, hitherto unavailable, presents itself, the appropriate thing to do is to take the opportunity.**

We should also guard against turning rigid with our own ideas of how the world should function.

We make investments based on analysis and based on certain assumptions. If events turn against us, or if the assumptions turn out to be wrong, there is simply no point in continuing to hope that future events will move the way we want them to move.

The appropriate thing to do when the re-appraisal of the investment thesis shows that our original assumptions were wrong, or that newer events have nullified our earlier expectations, is to bite on the bullet and sell our holding.

The same argument holds true when a superior opportunity (that was hitherto unavailable) presents itself.

**(10) It is better to be clear about why a stock was purchased in the first place. This helps at the time of re-evaluation.**

If we are to re-evaluate our investments periodically, we should be clear about why we bought them in the first place.

An investor should have a clear thesis about why each stock is held in the portfolio. And periodic re-evaluation becomes easier when we can see that the thesis with which the stock was purchased continues to remain relevant or not.

Dear Investor, in this newsletter we have shared the golden learnings that we try to follow in constructing and managing your portfolio.

Warm regards

Yours sincerely,

**E A Sundaram**

Chief Investment Officer and Portfolio Manager

*“Nothing you do will guarantee success, though you can tilt the odds significantly in your favour by having the right philosophy, mindset, process, team, clients, and culture. Getting those six things right is just about everything.” -Seth Klarman*

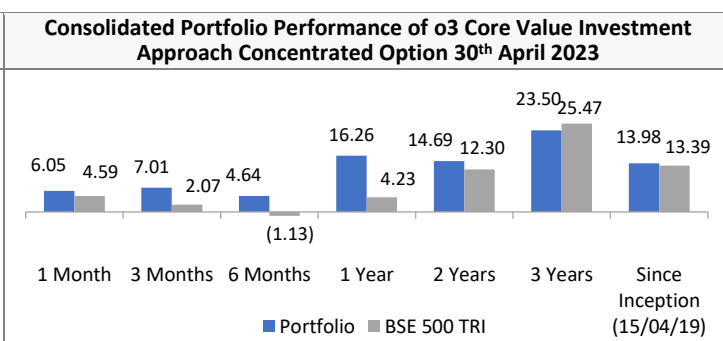
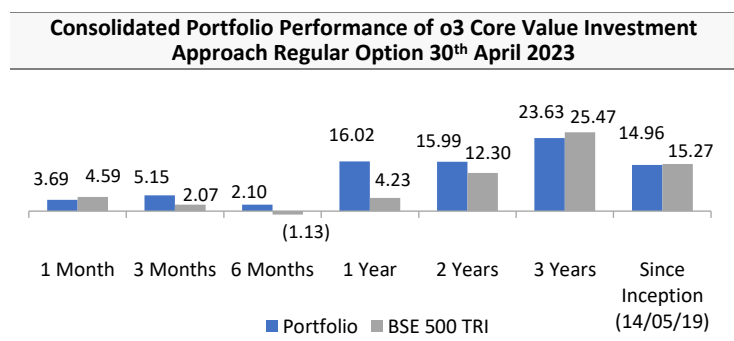
**Investment Objective:** The investment objective is to achieve capital appreciation through investment in a diversified portfolio of high-quality companies, purchased at reasonable valuation.

o3 Core Value Investment Approach			Regular Model Portfolio Sector Weight	
Name	GICS Sector	Weight		
ITC Ltd	Consumer Staples	6.07%	Financials	19.00%
HDFC Ltd	Financials	5.30%	Consumer Discretionary	18.50%
Indraprastha Gas Ltd	Utilities	4.88%	Information Technology	15.50%
Bosch Ltd	Consumer Discretionary	4.48%	Industrials	14.00%
Divis Laboratories Ltd	Health Care	4.25%	Consumer Staples	8.50%
Titan Company Ltd	Consumer Discretionary	3.84%	Health Care	8.00%
Asian Paints Ltd	Materials	3.76%	Utilities	7.00%
Infosys Ltd	Information Technology	3.73%	Materials	3.50%
Larsen & Toubro Ltd	Industrials	3.62%		
Oracle Financial Services Software	Information Technology	3.50%		
		<b>43.43%</b>		

Performance Description	Regular	Concentrated	BSE 500 TRI	Regular Model Portfolio Composition	
Largest Monthly Gain	12.51	11.41	14.63	Weighted Average ROCE	24.31%
Largest Monthly Loss	(20.53)	(19.19)	(23.85)	Portfolio PE (1 year forward PE, based on FY25)	24.62
Beta of Portfolio	0.76	0.73		Portfolio Dividend Yield	1.46%
Standard Deviation (Annualised)	16.21	15.83		Average Age of companies	56 Years
Correlation	0.93	0.91		Total Debt/Equity	0.47
				Debt/Equity (Excluding Financial Stocks)	0.14
				Sales Growth	18.61%
				EPS Growth (FY25 over FY23)	18.54%

Category	Percentage
Large Cap	50.0%
Midcap	30.0%
Small Cap	14.0%
Cash	6.0%



- 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
- Industry Classification as recommended by AMFI, all the above data are as of 30<sup>th</sup> April 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 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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