ADVICE SENSE PRESENTS

INVESTONOMICS

INVESTING GUIDE | APRIL 2019 to JUNE 2019

ADVICE SENSE BRINGS ITS SIXTH EDITION OF QUARTERLY INVESTMENT GUIDE INVESTONOMICS

6TH EDITION
April to June

WHAT'S INSIDE

AdviceSense
WEALTH MANAGEMENT ▪ SIMPLY ETHICAL

Dear Client,

Post the liquidity stress seen in 3QFY19, money supply in the system seems normalizing, particularly for better rated strong corporates / NBFCs, however spreads for lower-rated and risky (perceived) sectors continue to remain high.

After slow Jan – Feb' 19, Equity markets moved up sharply in Mar'19 (S&P BSE Sensex and Nifty 50 Index moved up by 8%) mostly due to opinion polls implying favorable position for incumbent government and foreign inflows of institutional funds.

FIIs continued its Feb buying momentum in March to record inflows of $4.8 bn, taking CY till date total to $7.1 bn. This was also lead by change in Fed stance to "Dovish" in its last policy meet, de-escalation of geopolitical tensions between India / Pakistan, optimism over US - China trade negotiations and March 2019 GST collections which were at a record high of Rs 1.06t (+16% YoY) - Interim budget estimate targets FY20 GST revenue of INR13.7t (+16.5% YoY).

Corporate earnings in last four quarters have shown some signs of improvement, but overall number still remain lower versus expectations. Confidence level in FY19 - 20 earnings growth remains quite high as ~45% growth is driven by banks; where credit cost would drop meaningfully given higher provision coverage on the bank books and lower incremental NPAs.

Global central banks have reversed gears from that of a buoyant and robust economic outlook to one of an impending slowdown, some analyst even predict that of a recession. From a forecast of multiple rate hikes and continued balance sheet contraction, Fed in a span of a quarter is now guiding for a patient stance resulting in sharp drop in yields across the universe, with return of negative yields in Germany.

US economy slowing more than estimated at 2.2% against expectation of 2.4%. Reacting to these developments the US 10Y closed the month 31bps lower at 2.40%.

India's GDP growth for FY20 is projected at 7.2% with H1FY20 in the range of 6.8% - 7.1% and 7.3% - 7.4% in H2. RBI expects CPI inflation at 2.9%-3.0% in H1FY20 and 3.5% - 3.8% in H2FY20.

RBI has cut rate second time consecutively as expected by market. And, growth and inflation expectations have been revised further lower from last policy. The guidance is clearly for strong intent to support growth as inflation is projected to remain under the threshold of 4% in all of 2019.

As such, possibility of further rate cuts in ensuing policies remain very much alive with reasonable certainty on RBI continuing to inject adequate liquidity via OMO/Swaps.

Valuations & Our Views

On trailing basis valuations of broad market indices are high, but the consensus estimates peg FY19 and FY20 Nifty-50 earnings growth of 8% and ~26% respectively, implying 1-years forward P/E of ~19x.

Apart from most important factor being corporate earnings growth, other five key factors that should drive markets here onwards are:-

a) Outcome of general elections

b) Liquidity in the system post elections

c) Policy initiatives of the new government

d) Comments on monsoon by the met department vs actual rainfall

e) Outcome of Brexit and US - China trade talks.

India is on a path of many structural changes in all 3 areas – economics, social, and political. Next decade should be an opportune time period with great potential for wealth creation, provided one is a disciplined investor. We expect CY 19 to be a year of high volatility as valuations are high and we recommend investors to follow patient, watchful, but disciplined way in equities for long-term, within the earmarked asset allocation along with staggered investments through SIP or STPs.

With regards to debt investments, we recommend sticking to select short term and low duration and ultra-short term funds, as they offer decent yields and lower duration reduces the interest rate and credit risks. We do not recommend, dynamic bond funds, credit risk funds, hybrid debt funds, income funds, corporate bond funds, medium term to long term funds.

We have covered in this edition our shortlisted top 10 equity mutual funds, top 5 debt mutual funds and top 5 equity Portfolio Management Services.

Kamal Manocha
Chief Strategist and Advisor
AdviceSense Wealth Management

He Comes with varied experience in investment advisory and wealth management domain. He has worked for 10 years with Citibank India as a Private Banker and Investment Counselor and was associated briefly for 18 months as a CEO and Business development head with a SEBI registered investment advisory company. He has pursued Honors in Economics & Master's in Business Administration.

Financial Decisions are Emotional: Neuro Finance Explains...

When confronted with an economic or financial decision, how does our brain function and what makes it react in a particular way? Do we know the real underlying underpinnings of the financial brain? Is it careful? Is it logical? Or is it emotional?

In the past few years a new way of looking at decision-making, as it relates to financial markets and risk taking, has evolved i.e. “Neuro finance”. It seeks to understand why we make the financial choices we do by looking at activity in different parts of the brain. It is a bridge between brain and financial sciences to obtain a better understanding of the financial and economic decisions of individuals. This examines the neurological basis of mental state on financial decisions and studies the effects of social, cognitive, and emotional factors on the economic decisions of individuals and institutions.

Difference between Classical and Neuro Finance

Classical finance relies on two key assumptions: a) rational Homo sapiens and b) financial markets determine the "fair price". Neuro finance does not serve as a contradiction to these tenets, but complements them by emphasizing the importance of human psychology in financial markets. Neuro finance points to the existence of market bubbles and manias as events where human behavior may be the missing link that explains such market scenario.

The point of departure of neuro finance is that because classical finance assumes full rationality, it cannot explain many price patterns. Using insights from all behavioral sciences (cognitive neuroscience, psychology, sociology) on how real people depart from the rational model—real people are boundedly rational, neuro finance strives to rationalize hitherto-puzzling price patterns.

Features of Neuro Finance

The neuro finance investigates the subtle facets and interactions in the human brain, faced with the uncertainty of making economic decisions. The most common human traits like fear, anger, greed, selflessness place considerable emphasis on our decisions about money. Intellect, reason, and emotion are all interrelated; they are the springs behind human decisions. Human behavior is generally reactive, not proactive; therefore, it is difficult to make predictions on the basis of narrow rules. Neuro finances can relatively easily explain why an individual has made a particular decision. Neuro finance is based on the belief that explaining human brains’ decision mechanism will lead to a better understanding of the internal factors of irrationality and will contribute to improvements in understanding financial decision-making. It could, therefore, be applied to designing better and more accurate financial modeling.

”Author Russell James has explained this phenomena of human mind in one of his research papers - that we are all involved in a constant conflict between parts of the brain that operate more quickly (using instinct and emotion), and slower, deliberate part that attempts to impose reason on the emotional (gut) cognitive responses ”

Relevance for Financial Decision Making

The concept of neuro finance helps us recognize our natural biases that lead us to making illogical and often irrational decisions when it comes to investments and finances. A prime example of this is the concept of prospect theory, according to which, perceived losses cause greater emotional impact on an individual than does an equivalent amount of gain, so given choices presented two ways — with both offering the same result — an individual will prefer to pick the option offering perceived gains. Hence human mind is basically wired to be fearful and risk averse so one is always looking to enter in equity markets at lower levels, but becomes fearful and misses right levels when it comes.

Some investors worry more about the marginal percentage change in their wealth than they do about the quantum of wealth they actually possess, and become risk averse in their decisions. This thought process is backwards and can cause investors to fixate on the wrong issues.

Recent discoveries about how we calculate risk and reward indicate that our brain may be able to make financial predictions even when we have no knowledge of finance.

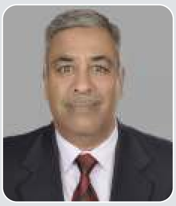
> ” Camerer, Loewenstein, and Prelec (2004) says, A crucial fact is that the human brain is basically a mammalian brain with a larger cortex. Explaining which, he means, human behavior will generally be a compromise between animal emotions & instincts, and human deliberation & foresight.

Conclusion

Financial decision making is the outcome of complex neurophysiological processes. Evidence suggests that emotions play a crucial supporting role in financial decision making. So it is important to understand and remember this propensity of human mind for our rational side to know where to steer the focus, and how to keep the focus from getting distracted.

Understanding how and when our mind is liable to pull us in the wrong direction gives us a better opportunity to anticipate our weaknesses and avoid succumbing to temptations that compromise our long-term goals.

Neuro finance examines why we make the financial choices we do by looking at activity in the brain. Neuro finance can be expected in the near future to provide a number of effective tools for improved financial decision making.



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Dr. S K Gupta has over 38 years of Corporate and Academic experience. He is currently a member of organizations like Capital Markets committee of the PHD Chamber of Commerce, Corporate Affairs committee of the PHD Chamber of Commerce, Banking and Finance Committee of the PHD Chamber of Commerce, Company Law and Corporate Governance Committee of PHDCCI, Professional Development Committee of NIRC of ICSI.

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TEN INVESTMENT INDICATORS AND THEIR HISTORICAL MAXIMUM AND MINIMUM

1 NIFTY PRICE TO EARNING RATIO

Current	29.01
Min	10.68
Max	29.01

Ref. : Mar. 19

2 MARKET CAP TO GDP RATIO

Current	76.9%
Min	46.6%
Max	151.5%

Ref. : Dec. 18

3 GOVERNMENT DEBT TO GDP RATIO

Current	45.9%
Min	45.5%
Max	61.6%

Ref. : June 18

4 INFLATION RATE (CPI)

Current	2.57%
Min	1.54%
Max	12.17%

Ref. : Feb. 19

5 INTEREST RATE

Current	6.00%
Min	4.25%
Max	14.50%

Ref. : Mar. 19

6 GDP ANNUAL GROWTH RATE

Current	6.60%
Min	-5.20%
Max	11.40%

Ref. : Jan 19

7 CREDIT RATING

Current	BAA2 (Moody's)

8 BUSINESS EXPECTATION INDEX

Current	116.20
Min	96.40
Max	127.50

Ref. : Feb. 19

9 INDIA'S INDUSTRIAL PRODUCTION INDEX

Current	1.70%
Min	-7.20%
Max	19.90%

Ref. : Jan. 19

10 MANUFACTURING PMI

Current	52.60
Min	47.90
Max	55.00

Ref. : Mar. 19

Source: https://www.tradingeconomics.com
https://www.ceicdata.com

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Top 10 Equity Mutual Funds

1. Invesco India Contra Fund – The fund follows contrarian style investing. The aim is to have a first mover advantage by investing into out of favor sectors/stocks thus increasing out-performance prospects.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
3,252	64.45%	28.02%	7.54%	7.83%	5.31%	5.98%	8.55%	17.79%	19.66%	13.97%

2. Kotak Emerging Equity Scheme – The fund invests predominantly in midcap stocks and identifies those companies which are either at a very nascent stage or developing stage and are under researched.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
3,535	4.51%	80.31%	12.27%	6.97%	4.67%	9.31%	-0.22%	15.62%	22.60%	11.86%

3. Mirae Emerging Bluechip Fund – The fund invests in Large or mid cap companies. The aim of the fund is to invest in both, the current bluechip companies and the upcoming potential bluechip companies.

*This fund allows investment via either SIP or STP (25,000 pm per PAN)

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
6,444	55.08%	39.35%	5.57%	7.50%	6.14%	11.29%	12.29%	21.46%	25.46%	20.81%

4. Axis Bluechip Fund – The fund invests only in large cap companies. It emphasizes on quality and growth in its stock prices, favoring companies with improving cash flows and higher earnings visibility. It tends to maintain the portfolio compact.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
4,221	100.00%	-	-	5.28%	4.66%	6.59%	14.53%	15.75%	14.27%	11.69%

5. Motilal Oswal Multicap 35 – The fund invests in stocks across large, mid and small cap. It invests in maximum of 35 equity stocks (as the name suggests) across sectors and chooses stocks which are emerging and enduring wealth creators.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
12,702	81.34%	18.33%	0.33%	6.36%	3.35%	5.80%	-1.25%	16.10%	-	21.38%

Source – https://www.valueresearchonline.com , https://www.mutualfundindia.com

Data is as on 31st March 2019

Fund have been selected based on past performance, fund expense and portfolio allocation.

Top 10 Equity Mutual Funds (Contd...)

6. Mirae Asset India Equity Fund – The fund's investment strategy has two parts – Core, which invests in quality businesses from long term perspective and Tactical, which takes advantage of short-to-medium opportunities.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
11,893	87.21%	11.12%	1.68%	6.68%	6.27%	7.73%	14.19%	18.07%	18.32%	15.78%

7. TATA Equity P/E Fund – The fund follows the value-conscious style of investing and aims to invest at least 70% of its assets in companies which, at the time of investment, have a rolling 12 month P/E ratio lower as compared to that of BSE Sensex.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
5,541	65.81%	26.02%	8.18%	6.11%	3.29%	3.85%	0.78%	18.14%	19.36%	19.20%

8. Kotak Standard Multicap Fund – The fund aims to identify sectors that are likely to do well over medium term and take focused exposure on stocks within these sectors.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
23,881	76.55%	21.98%	1.47%	7.71%	6.58%	8.43%	11.52%	16.98%	18.69%	13.96%

9. L&T Midcap Fund – The fund primarily invests in companies whose market capitalization falls between the highest and the lowest constituent of the Nifty Free Float Midcap 100 Index.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
4,390	6.61%	81.31%	11.82%	7.07%	1.76%	4.65%	-2.52%	17.87%	22.30%	19.49%

10. Tata India Consumer Fund – This is a thematic fund. It seeks long term capital appreciation by investing at least 80% of its assets in companies in the Consumption Oriented sectors in India

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
1,454	59.17%	33.05%	7.77%	2.38%	-2.36%	1.00%	1.65%	21.89%	-	18.24%

Source – https://www.valueresearchonline.com , https://www.mutualfundindia.com

Data is as on 31st March 2019

Fund have been selected based on past performance, fund expense and portfolio allocation.

Top 5 Debt Mutual Funds

1. Franklin India Ultra Short Term Bond Fund Super Ins – The fund endeavors to strike optimum balance between regular income and high liquidity. This is achieved through a judicious mix of short term debt and money market instruments.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
DEBT: ULTRA SHORT DURATION	16,712	9.53%	0.39	Medium	0.86%	2.49%	5.31%	9.21%	8.92%	9.28%	8.93%

2. Kotak Low Duration Fund – The fund seeks to generate income through investments primarily in low duration debt security and money market securities. It aims for regular income over short term. The average duration of securities in this portfolio is 6 to 12 months.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
DEBT: LOW DURATION	4,579	10.09%	0.86	Medium	0.95%	2.25%	4.51%	7.69%	7.87%	8.48%	7.73%

3. Aditya Birla SL ST Opportunities Fund – The fund aims to generate income over short to medium term by investing in debt and money market instruments. It invests in those instruments that offer superior yield at acceptable levels of risk.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
DEBT: SHORT DURATION	3,557	9.45%	1.44	Medium	1.30%	2.09%	4.74%	7.13%	7.63%	8.51%	7.32%

4. Franklin India Corporate Debt Fund – The fund predominantly invests in AA+ and above corporate bonds with a moderate duration to provide investors regular income and capital appreciation. This is suitable to investors seeking lower rates of risk with and investment horizon of 1 year or more.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
DEBT: CORPORATE BOND	871	9.79%	2.38	High	1.71%	2.76%	6.61%	8.13%	8.92%	9.19%	8.67%

5. Kotak Money Market Scheme - The fund aims to reduce the interest rate risk by predominantly investing in floating rate securities, money market instruments. It is suitable for investors who are looking for short term parking of surplus funds.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	Since Inception
DEBT: Money Market	7,617	7.77%	0.45	High	0.83%	2.21%	4.43%	8.15%	7.42%	7.91%	7.40%

Source – https://www.valueresearchonline.com , https://www.mutualfundindia.com

Data is as on 31st March 2019

Fund have been selected based on past performance, fund expense and portfolio allocation.
Investments are subject to market risks. Please read all Scheme Information Documents (SID) /Key Information Memorandum (KIM), addendum issued from time to time and other related documents carefully before investing.
Past performance is not indicative of future returns.

Four Distinct Styles of Quality Equity Investing

1. Coffee Can Investment Strategy - This strategy is a low-risk route to potentially very high returns. This strategy identifies only the "THE GREAT COMPANIES", that have the DNA to sustain their competitive advantage over 10, 20, 30 years (or longer). It selects companies which have decades of experience, strong brand value, and competitive advantage. These great companies endure difficult economic conditions and do not get disrupted by competitors or by operational aspects of the business.

   There are a handful of companies in India which have the capability to deliver earnings growth consistently in a tight band of 15% – 30% each year for more than a decade, regardless of any type of disruption that they face. The Coffee Can Philosophy shows commitment to such high-quality franchises. Examples of some of such companies is mentioned below highlighting the average return on equity delivered by them in last 20 years.

   Below mentioned are 2 PMS follow Coffee Can Investment strategy. Ambit Coffee CAN is more than 1 year old, and Marcellus Consistent Compounders was launched by Ex-Ambit senior management, in Jan 2019

Strategy Name	AUM (in cr)	Performance							
		1M	3M	6M	1Y	2Y	3Y	5Y	SI
Ambit Coffee CAN	304	6.25%	1.50%	3.00%	18.00%	19.90%	-	-	21.50%
Marcellus Consistent Compounders	98	5.89%	3.13%	-	-	-	-	-	5.03%

2. Motilal's Proprietary Investment Strategy - Q.G.L.P - BUY RIGHT: SIT TIGHT

   Buy Right -
   "Q" denotes the quality of the business and management;
   "G" denotes growth in earnings and sustained ROE;
   "L" denotes longevity of the competitive advantage or economic moat of the business;
   "P" denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price

   Sit Tight -
   <u>Buy and Hold:</u> Strictly buy and hold and believe that picking the right business needs skill and holding onto these businesses to enable investors to benefit from the entire growth cycle needs even more skill.

   <u>Focus:</u> High conviction portfolios of 25 to 30 stocks for adequate diversification as it believes that over-diversification results in diluting returns and add market risk.

   Its NTDOP Strategy has consistently outperformed the benchmark across market cycles over last 10 years and is one of the largest PMS with assets of 8863 Crores. It aims to deliver superior returns by investing in stocks from sectors that can benefit from the Next Trillion Dollar GDP growth. It aims to predominantly invest in small and midcap with a focus on identifying potential winners that would participate in successive phases of GDP growth.

Strategy Name	AUM (in cr)	Performance							
		1M	3M	6M	1Y	2Y	3Y	5Y	SI
Motilal NTDOP	8863	7.63%	1.30%	2.26%	4.63%	7.63%	16.88%	22.98%	16.74%

3. Invesco's D.A.W.N Strategy -

D – Demand Recovery across cyclical & consumer discretionary sectors
A – Attractive valuation to provide margin of safety,
W – Winning companies on the cusp of a new demand cycle leading to operating & financial leverage efficiencies
N – New credit & investment cycle to provide a boost to earnings recovery.

Invesco is one of the world's leading independent global investment management firms. It manages more than USD 1 trillion in assets under management around the globe

Main highlights of the DAWN PMS Investment Strategy are:

- Exposure to sectors and stocks which are expected to benefit from a revival in the cyclical recovery.
- Emphasis on mean reversion & value style. The high impetus on companies with quality business models & management.
- Allocation to companies which exhibit operating & financial leverage.
- Bottom-up stock picking approach without bias towards market cap or sector.

Strategy Name	AUM (in cr)	Performance							
		1M	3M	6M	1Y	2Y	3Y	5Y	SI
Invesco DAWN	559	9.62%	6.97%	7.10%	9.73%	-	-	-	6.98%

4. Promoter's Skin in the Game - ASK India Entrepreneurial Portfolio is the second largest PMS and manages around 7820 Crores of assets. The concept invests into Indian Entrepreneurs with adequate skin in the game who have demonstrated high standards of governance, vision, execution, wisdom, capital allocation and capital distribution skills. They run businesses that are amongst the highest long-term earnings growth.

Key highlights of this philosophy are:-

- Focus is on top-drawer earnings growth without capital dilution
- High quality of business
- Meaningfully large margin of safety
- Size of opportunity remains at a high enough level and growing

Strategy Name	AUM (in cr)	Performance							
		1M	3M	6M	1Y	2Y	3Y	5Y	SI
ASK IEP	7820	6.40%	4.00%	7.80%	10.80%	12.30%	16.40%	21.10%	19.10%

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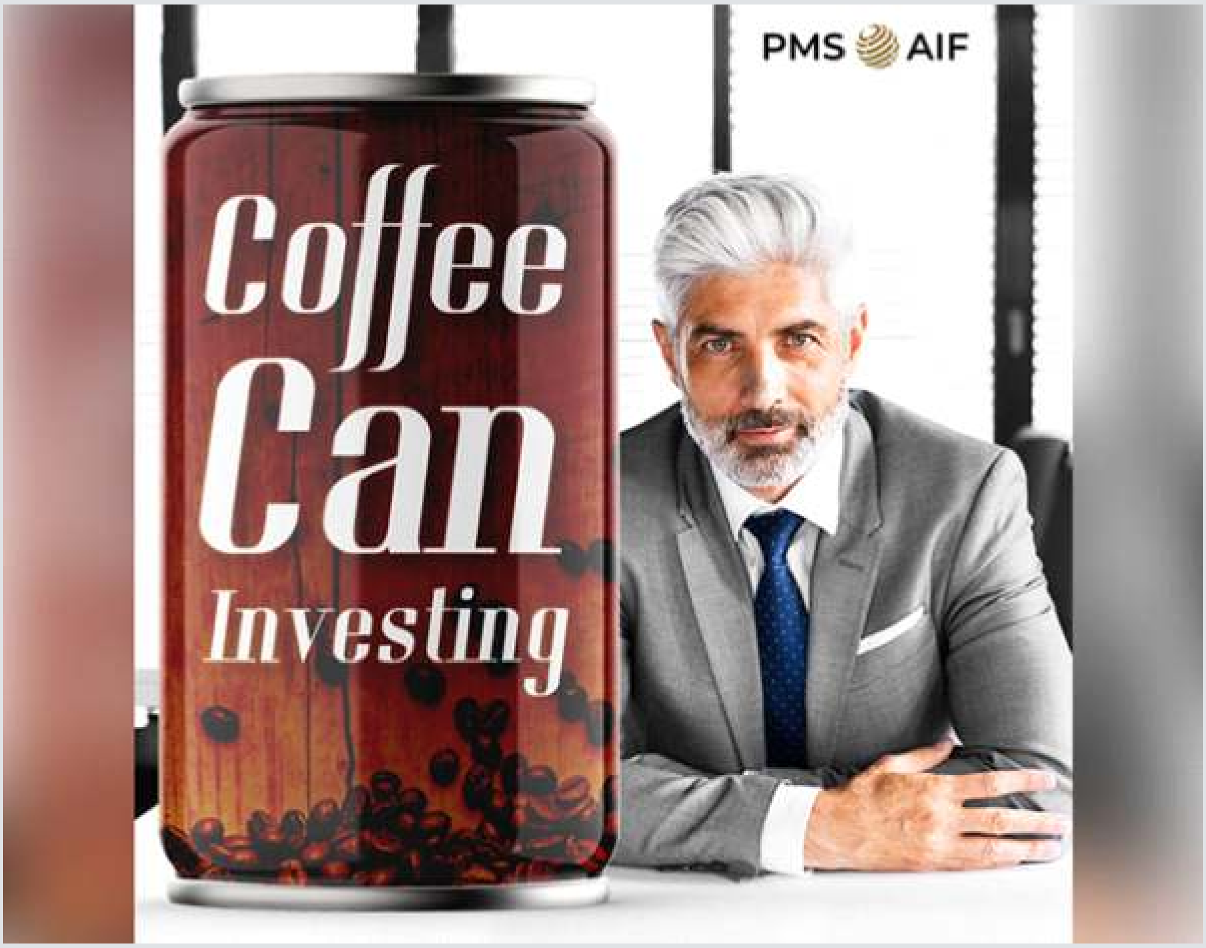
Coffee CAN Investing

Coffee Can Investing is an interesting investment strategy to make successful equity investments.

In general, there are two distinct styles of equity investing strategy. First, 'Value Investing strategy' where you buy the stocks of undervalued companies. Second, 'Growth Investing strategy' where you buy the stocks of companies in their growth phase. Both these styles focus on buying equity stock and thus are susceptible to the volatility of equity markets and lots of external factors. So both these styles are considered as "high risk" paths to high returns.

Interestingly, there is the third style of investing that is less known, 'Coffee Can Investing'. It's a strategy that promises impressive wealth creation with 'Less risk'.

"Coffee Can Investing Portfolio" is a term coined by Robert G. Kirby who is considered as one of the greatest investment advisors of all times. The concept of "Coffee Can Investing Portfolio" has its roots in Old West America where people used to hide their valuables in the coffee cans and then the cans were put under a mattress to be kept for years or even decades.



Mr. Kirby thereby suggested that investors should follow Coffee Can Investing approach. They should identify such invaluable companies and invest for at least 10 years. It includes companies which have decades of experience, strong brand value and competitive edge. These companies are least affected by the change in the stock market. During the difficult times, they might have to increase the prices but it won't affect them. For instance, if ITC increases the prices on cigarettes people won't stop buying them because of an increase in price.

Coffee Can Investing strategy neither works on value nor growth; it works on quality investing. It selects a company with at least 100 cr. of market cap. The list is further short-listed to companies which have:

- Been around in the market for at least 10 years,
- Delivered revenue growth of 10% and
- Return on capital employed of 15% in each of these 10 years.

RETURN ON EQUITY (Yearly)	Average FY 98-08	Average FY 09-18
Asian Paints	32%	38%
ITC	30%	30%
Nestle India	65%	71%
Pidilite	25%	27%
Page Industries	38%	52%
HDFC Bank	21%	19%
Median	31%	34%
Cost of Equity	15%	15%

*Source – Companies. Ace Equity

The success of Coffee Can Investing strategy depends entirely on the wisdom and foresight to select the objects to be placed in the coffee can, to begin with.

Professional money managers rarely produce a return superior to that of a broad-based, unmanaged portfolio. Hence, the notion that a Coffee Can Investing portfolio can outperform an actively managed portfolio is not without a basic logic.

This philosophy of Coffee Can Investing is built to identify great companies that have the DNA to sustain their competitive advantages over ten, twenty, thirty years (or longer). This is because the 'greatness', which this the coffee can portfolio seeks, is not temporary, so, is surely not a short term phenomenon. Great companies endure difficult economic conditions and do not get disrupted by evolution in their customers' preferences or competitors, or operational aspects of the business.

Often such companies appear conservative, however, they do not confuse conservatism with complacency. Their management teams strive and strategize to deliver results better than the competition, year after year. These traits are rarely found outside of great companies. Given the desire for longevity and consistency of performance around ROCE & Revenue growth, Coffee Can Investing is oriented towards B2C over B2B sectors.

Beating the market is not so easy. It requires perspective, patience, and courage. Your most successful investments grow in value, you make partial sales and transfer the capital involved to your less successful investment that has gotten cheaper. The process results in a stream of capital being transferred from the most dynamic companies, which usually appear somewhat overvalued, to the least dynamic companies, which usually appear somewhat undervalued.

Why PMS Investors Make More Wealth

There are primarily 2 products that are available for good equity market investments – PMS & MFs. While MFs are Good, here we try and explain why PMS turns out to be better for long term high performance investing.

Owing companies bring long term perspective towards the portfolio

Wealth Creation happens in long-term and so the product that makes investors hold on for longer periods brings in more potential for superior performance. Given the market volatility, & ones behavioral traps to greed & fear, it becomes practically difficult for investors to remain invested for the long term. This is specifically true for Mutual Fund investors & AMFI's recent data (Dec 2018) is an evidence to it as per which 70% of the equity investments in mutual funds are held for less than 2 Years only. On the other hand, in case of a PMS, customized demat account is used, where specific stocks are held, investors have thus some understanding of where eventually the money is invested. This brings more investor involvement and hence longer-term investment perspective. Eventually, when investment is held for 3+ years, investors understand the reward for holding on and with positive experience learn to control behavioral biases during tough times.

Concentration and Focus brings high performance in the portfolio

High performance investing is all about Focus. MFs are quite diversified and so offer less volatile returns but at the cost of compromising the potential for high performance which a focused and concentrated strategy could bring. PMS does this, as its crafts and keeps a concentrated & focused basket of 15 – 25 well-researched companies with low churn. Focused approach of PMS generates superior long term performance but comes at the cost of more volatility. That is why PMS is meant for informed investors who really want money to work harder, but clearly, have a long term horizon & are not bothered by short to medium term volatility. Since PMS works with a concentrated approach, there is no compulsion to churn a stock that is performing irrespective of its rising weight in the portfolio over the years. What matters to the PMS Manager is the expected corporate earnings and growth potential in the business. Unlike this, in mutual funds, beyond a point, fund manager may be forced to let go of a performing stock to cut its rising weight, leading to high concentration which is not desired, and hence great companies may move out of the portfolio.

Avoiding trap to behavioral flows keeps the quality in the portfolio

Fund flows impact fund managers decisions, and with the rising participation of young & retail investors in mutual funds, pooled stock portfolio concept makes them prone to vagaries of behavioral flows of retail investors as such fund flows rise is rising markets and peaks out at expensive valuations but falls with falling markets and bottoms out at attractive valuations. In PMS, min ticket size of 25 lacs becomes an entry barrier and hence retail flows do not impact PMS managers decisions. Also, there is no pooled stock concept; in fact, each investor gets customized demat, so one investor's behavioral reactions to market movements doesn't impact other investor's portfolios.

"Successful investing is about owning businesses and reaping the huge rewards provided by the dividends and corporate earnings" – John C Bogle

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Past performance is not indicative of future returns.

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IT ALL SEEMS VERY SOPHISTICATED BECUASE IT IS AND WE MAKE IT SEAMLESS FOR YOU

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