CANDOR INVESTING

presents

The Magic, Myths and Mistakes of Investing

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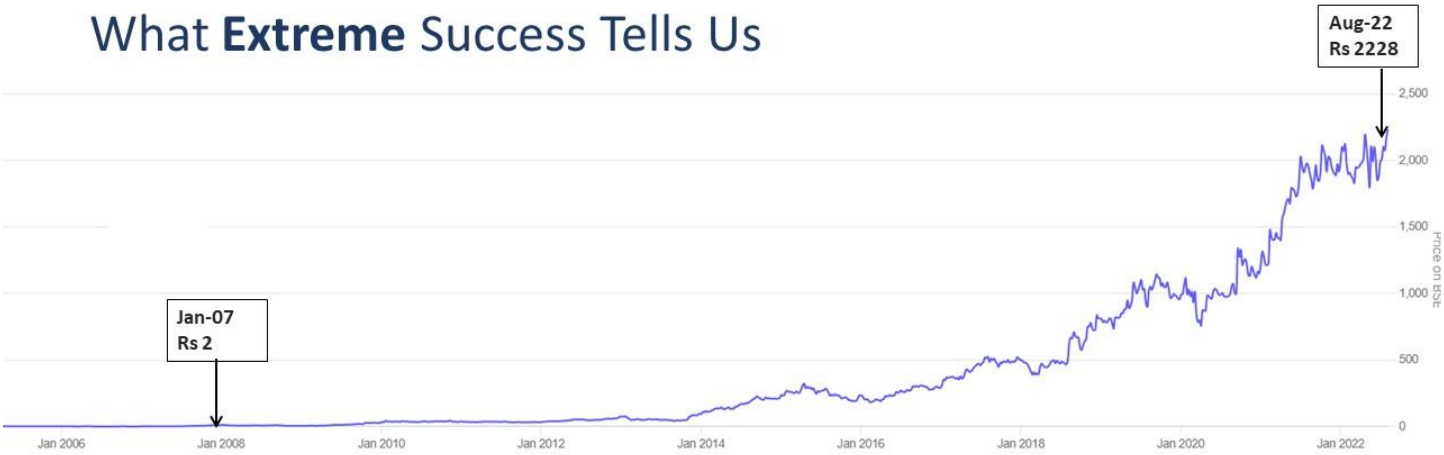
PART 1 – THE MAGIC

What **Extreme** Success Tells Us



Vinati Organics went up (1114 times↑)			
Figs in Rs Crs	**2006**	**2013**	**2022**
Revenue	57	553	1409
Profit (PAT)	2	69	316
Stock Price	2	57	1910

This is what **extreme success** looks like.

If we are able to find 2/3 such companies over a 30-year period and hold on to them, it changes the financial orbit of our family for generations.

And I can take several such stock names which have gone up 100X to 1000X over the last 30 years. To name a few – HDFC Bank, Asian Paints, Alkyl Amines, Manappuram, Balkrishna Industries, Navin Fluorine, Pidilite and the list goes on.

PART 2 – THE MYTHS

Myth No. 1
It is easy to make money in stocks

Maybe; but also draw your attention to this saying
"Investing is simple, but not easy."

In fact, I will go a step ahead and say that investing is really hard. Why is it hard?

"*Investing is 10% knowing, 90% execution*

Anyone who has struggled with weight problems will relate to this. I struggle too. Given my height (I am tall), I used to weigh 90kg when I was 22 years old. Today I weigh 114 Kg.

I exercise every day, only eat home-cooked food, and yet every quarter, I find a few hundred grams added to my weight.

#Myth No. 2
Big financial institutions make more money than individual investors.

Actually, being a retail investor (individual investor) is a big boon.

First, let me explain what structural disadvantages big institutions like mutual funds face.

1. Most investors judge mutual funds based on 6 / 12-month performance.
   Most mutual fund investors change their mutual funds every year. This means, the mutual fund manager is trying to own a stock that will give the best possible returns in the next 12 months, not in the next 3/5/7 years.
   By design, mutual funds have a shorter time horizon. You as an individual investor can have a much longer time horizon.

   E.g. How many mutual funds have held Eicher Motors (Bullet) stock for the last 12 years and made a 100-bagger returns? But, many individual investors have.

2. Mutual Funds earn fees as a % of AUM.
   So, mutual funds are AUM gathering machines. Giving returns on investment is a secondary objective. Have you observed that most mutual fund companies (AMCs) have tens of equity fund schemes? And that they only advertise those schemes which have worked well in the last 12 months? They don't talk about / advertise those schemes which have under-performed in the last 12 months.

3. Size related issues.
   Let us take the example of a good mutual fund scheme – Parag Parikh Flexi Cap fund (I am an investor). Its AUM has grown to Rs 25,000 Cr. Now, let us assume it wants to invest 2% of its portfolio

in a new stock. It will have to put in Rs 500 Cr into a new stock it wants to own.

What should the size of the company be to absorb that kind of buying without materially impacting the stock price? Assuming that the mutual fund would not want to buy more than 5% stake in the company, the company should have a market-cap of at least Rs 10,000 Cr.

What this basically means is that, Parag Parikh mutual fund is now forced to only invest in companies with a market-cap of more than Rs 10,000 Cr

Are there no good companies below this market-cap?

Of course there are. Take the simple example of Ashiana Housing which is a very well reputed real estate player with a market-cap of just Rs 1,500 Cr. This company has become a 100-bagger in the last 20 years and still growing well.

So, mutual funds suffer from a size issue, individual investor portfolio size is usually not that big that it will prohibit him / her from investing in good quality but, smaller companies.

#Myth No. 3
I need a complicated scheme which nobody has heard about/understands

I am running an investment advisory business for the last 6+ yrs. I have spoken to 500+ prospective clients. I have seen a distinct pre-conception in many of these investors that investing in stocks is about some special advantage / insider information / complex strategy which is difficult to understand for the normal investor.

In fact, let me assure you that investing in stocks is about sticking to the basics. Doing the simple stuff consistently over long periods of time. If you don't understand the business, don't buy the stock just because someone else is buying it.

If you are uncomfortable about the valuation, do not pull the buy trigger.

Investing is a game with delayed feedback loop. Good or bad decisions that we take actually yield results 3/4/5 years later. Short-term price going up or down does not tell you whether your buy or sell decision was a good decision.

<u>Invest in an investment strategy / company / with a financial advisor whom you understand. Don't search for financial products that look "exotic" – most of the times, they are too good to be true.</u>

My best clients are those who have taken my advisory services because they don't want to spend the time managing their money. They want to concentrate their efforts on their primary source of job / business. Most of these clients would probably do a better job at investing than me if they put their mind to it.

PART 3 – THE MISTAKES

#Mistake No. 1
Macros – Does inflation, interest rates, GDP growth, recession really matter?

Of course, macro-economic factors affect stock prices.
But, the problem is – it is almost impossible to consistently predict the impact of macro-economic factors on stocks prices.

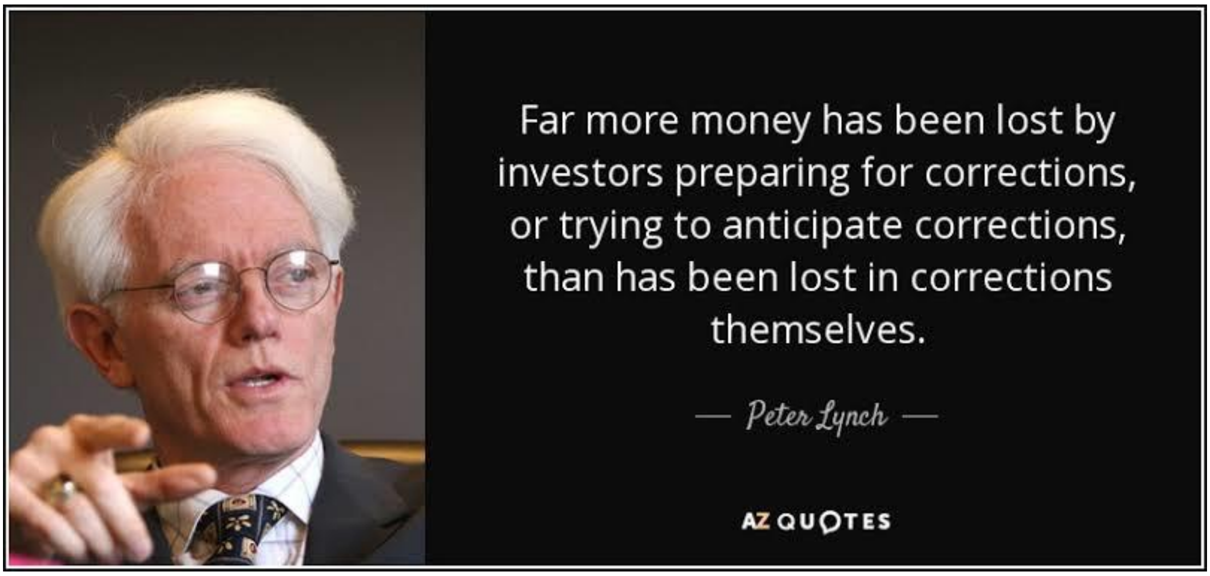
In fact, it is almost impossible to predict the direction of inflation, interest rates, commodity prices etc. E.g. The US and the developed world kept on printing large amounts of money after 2009 till 2017. It helped the economy recover, but did not cause inflation.

So, the developed world again printed massive amounts of money during the 2020 pandemic (*India did not print money*). It has caused massive inflation in the US. If I am not wrong, US, for the first time in 50 years, has inflation rates more than that of India.
Today, US and European economies are on a sticky wicket while Indian economy is doing well.

Of course, there are reasons for it like China + 1, higher forex reserves, higher growth in India, geopolitical stability and a reform-oriented government in India. But, these are always post-facto analysis.

In investing, we don't want to do post-facto analysis. We need to invest before all macro-economic data and its trajectory is out.

Being pessimistic about the future is both intellectually and psychologically soothing / satisfying. But, when it comes to equity investing, we have to remember this Peter Lynch quote.



Hence, in my opinion, for long-term, fundamental, value investing, macro-economics does not matter much. We have to buy into good quality companies at reasonable prices and buy more if the stock markets fall.

Of course, we have to be mindful about industry cycles, business cycles and interest rate cycles and be careful not to overpay.

#Mistake No. 2
I need to have an opinion on whether I should buy / sell a particular stock

In my experience, in 90% of the cases, either I don't understand the business or I do not like the price at which the business is available.

To be a successful stock investor, one does not need to have an opinion on every listed company.

Swing only 10% of the times.

One needs to have the emotional maturity to ignore 90% of the opportunities. Of course, there will be cases where you did not invest and the stock went up 3X. But you want to make money on the right stock for the right reason, so that you can make bigger amounts of absolute money.

#Mistake No. 3
Higher returns are better

Which is higher – 50% of Rs 100 or 20% of Rs 1000?
Obviously, the latter.

Portfolio allocation matters. A stock in which you are confident about lower downside risk is a better investment even if it makes lesser money because you can allocate a larger portion of your portfolio and make higher absolute money.

Bonus Content

Investing is the game of the rich.

You don't need to have Rs 100 Cr to invest in stocks, what I mean is that you need to have the rich man's mindset.

- You should be ok witnessing 30% to 50% drop in your portfolio valuation.
  You will encounter periods like 2001, 2008, 2020 a few times in your investing career. Such declines should not financially impact your lifestyle.
  Invest only that money in stocks which you do not need for the next 5 years
- To get good returns without much effort, you just need to do this one thing - invest during bear markets and withdraw a little during bull markets.
  Although it looks simple and obvious, it is worth repeating.
  The reason most people are not able to do this is that most of the times, the stock you bought in a bear market declines 25% further from your purchase price and the stock you sold in a bull market goes up 30% from your sell price.
  The rich man is satisfied by the returns he makes, he is not into maximizing his returns, but is content with an above average outcome / returns.

All the best with your investing journey!

Let's create Magic.

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