

Monday, 21 November '2022

Dear INVasset INVestors

I have finally decided to write a newsletter for you. As it will be delivered to your Inbox and WhatsApp every Monday, I think "**INVasset's Monday Chronicles.**" will be a good name, though as the culture at INVasset is, we are open to and appreciate any creative names and suggestions from our team and investors.

So, Let's outline the character of the **INVasset's Monday Chronicles:**

- Firstly, this will be 100% honest. I will not add jargon or articles just to impress you.
- Secondly, it will be less formal. We are already sharing information with you guys regarding companies and sectors via **INVasset's Knowledge Bank** and various articles and information via **INVasset's Voice**, I want this article to be a connect, a conversation....a "Mann Se Mann ki Baat"
- Lastly, the purpose of this article will be to share the knowledge that I have acquired over the years in the stock markets, whether from my practical & investing experience or passed on to me by my mentor, my father, Rajnish Garg.

I would appreciate any number of questions or comments you have or even a topic that you may like me to focus on for next Monday. I am available 24X7 for you on your personal WhatsApp group or by email. You can also schedule a call by asking for the same in the group or by email.

With your support, INVasset has finally moved to Mumbai. This will be the head office of the company for the foreseeable future now. I have decided that the entire earnings that INVasset will realize from pay 4 performance, will be spent on adding a wonderful team and resources to give you better product and customer service.

Today,

In the very first edition, I want to focus on **CLARITY.**

As investors of INVasset, you have invested in your Fund Manager and his particular style of investing. Before moving to Mumbai, I made a list of 50 Top PMS in India (25 in terms of size and 25 in terms of performance) and visited their offices to understand their styles of investing only when I was convinced that our product is among the best out there, I took this decision of moving to Mumbai.

So I could broadly classify the investing styles into 3 major parts:

1. Deep Value Based Investors
2. Special Situation or Change Based Investors
3. Quality Focused Investors
4. x.....x.....x

Doesn't this look a little familiar? Doesn't it look like the first 3 stages of the **INVasset AAID Algorithm?** The fourth one is purposely left blank because none of the managers I met, had it in them to

acknowledge that markets are expensive sometimes and we should not be invested or be hedged somehow to protect capital.

Here is a glimpse of how the stages of your INVasset AAID Algorithms, which are the very basis of all your investment decisions, coincide with that of the fund management styles out there.

Investment Styles	INVasset AAID Stages	Fear Greed Balance	Market Valuations
Deep Value Based Investors	The Deep Discount Sale	Extreme Fear	Deeply Oversold
Special Situation or Change-Based Investors	The Trend Setters	Fear	Fairly Valued
Quality Focused Investors	The Shining Stars	Greed	Expensive
X.....X.....X	The Safety Shells	Extreme Greed	Exuberant

Deep Value Based Investors are those who recognize that a stock is trading below its fair value. They buy it at an undervalued price and sell it when it reaches a fair value or maybe a little bit more than that.

One of the most successful investor in this investment style that I have heard of has been Benjamin Graham, the mentor of Warren Buffet and author of brilliant stock market books like “Security Analysis” and “The Intelligent Investor”.

Such investors have the advantage of margin of safety but on the other hand, one may have to sit with the stock for years before the market realizes what you have realized.

We feel that when markets crash, every group of stocks crashes. I have never seen that with a correction, stocks trading below their fair value don’t crash and hold value.

I believe it’s the belief that value investors have is the only thing that is beneficial in this strategy and ultimately works for them. But, I have also seen people holding on to a value stock for years and selling it on the very first rise....or averaging and “SIP”ing to a point where it becomes too much to handle for them and selling it all in a market fall.

At INVasset, we use the value factor only in times of **capitulation**. These are the times when abnormal selling is going on in the markets due to some prevalent fear and stocks start trading at historically low valuations.

Here we buy stocks which are back bones of Indian economy, the blue chips that are available at absurdly low valuations.

For eg. We saw the capitulation phase in March 2020 when the markets fell from 12k+ levels to sub 8k levels, due to the Corona Virus Outbreak. This phase we call the **Deep Discount Sale**. Here stocks like Tata Motors were available at 85% discount from their highs and within the lowest 100 days of their price to book since listing. JUST IMAGINE!!!!

This phase lasts generally from “Sab Kuch Khatam” to “Girega Vapis”.

Special Situation or Change-Based Investors

These are the most amazing type of investors. They analyze the changes that have happened in the markets, and based on the magnitude and impact of the change, buy their stocks.

If asked, what phase are we in for the maximum period of time. I would say it is this stage. Around 50-60% of the time . We call this phase “**The Trend Setters**”

Markets have a tendency to reward recent positive changes & vice versa. This is the basis of Trendsetters part of the algorithm. The INVasset AAID algorithm here is based on our premise that **Every Bull Run** has a new Leader Sector/Company/Group in terms of stock performance due to recent some changes that have affected their working environment.

The Algorithm works on the RC² Model (Relative Change Rewarding Criteria) where companies having recent tailwinds with them will be given higher points. Similarly, for companies that face recent headwinds, more points are deducted. Following both Qualitative & Quantitative inputs, the Percentile Ranking System (PRS) is created and the top 25 companies are selected, which are then thoroughly checked by our research team before taking the investment decision.

This phase last generally from a “Girega Vapis” period to “Everything is alright”. By the end of this phase, markets have turned expensive.

Quality Focused Investors

These investors think that quality is the only factor they need to make investment decisions. They buy a stock, they buy it forever until something fundamentally changes. They will focus on major factors like

- The Quality of Management
- The Business Moats
- The Market Dominance
- The Visibility of consistent earnings

Any manager you think of that checks this list.....Yes, you are right....The Great Warren Buffet.

The advantage of this system is that you will not sell your best stocks when you think they are a little expensive like value investors and not incur costs by holding to a company forever. Such investors make good money in the long run.

The major con in this strategy is that these stocks become too expensive in a noninflationary bull run and tend to underperform in an inflationary scenario, as is happening in the last 2 years, and should continue underperform for another 2.

This phase last generally from a “Everything is alright” to “Yaar, maine job chodke full time trading shuru kari hai” . By the end of this phase, markets have turned exuberant....a bubble is formed and destruction is on the cards.

X.....X.....X

(*The No Fund Manager Zone, paisa market se nikala to client bhi nikal lega*) 😊

I believe we are investors and not stock market investors only. There comes a phase, when the markets are so exuberant that the risk-reward ratio of staying invested is not in favourable. Here we, at INVasset introduce our last phase, **The Safety Shells.**

We divide your portfolio into many parts:

- Buy stocks with very low Beta
- Take help of debt or arbitrage funds
- Buy non-co-related assets like Gold
- Hedging a portion to protect the hard-earned capital

And many such things as the AAID algorithm also suggest from time to time based on hundreds of factors it considers.

All the stages discussed here are a part of the cycle and come once every 3-4 years. How are these stages recognized and how the stocks are selected, bought, and churned in each one is all automatized via INVasset's AAID Strategy and nothing is left to human discretion to avoid human mind's fallacy of falling into the trap of greed and fear.

This algorithm has worked for the last 31+ years (i.e. more than 11k days) and we believe with the Artificial Intelligence element it has, it will continue to evolve and do well in the foreseeable future too.

The point of this topic is that you have **Clarity**, that the algorithm governing your investments in INVasset PMS has captured the best of all investment styles out there and has performed exceptionally well in the back-tested data (since 1991) and implemented data, whether it was on my prop desk(since 2016) or your PMS since (since 2020).

There will be periods where we will move like a rocket and periods where we may come back like it too, but when invested for a 3 years' time frame, we should be among the best assets out there.

I wish you all, including me, the ability to follow and trust the algo, and I am very sure, results will follow as they always have.

Namaste.

Jay Hind

Anirudh Garg