

Monday Chronicles June 2024

Dear Investors,

What a rollercoaster ride we have had in the stock markets recently. The index is rising on good news of opinion polls and then crashing to almost a down freeze in the markets on actual results. What can we all make of this? What is that one key understanding we can take away from this? One thing that we at Invasset emphasize repeatedly: never sell on bad news. Whenever there is a crash in the market accompanied by bad news, it generally marks a long-term bottom for the market. Something similar may have happened with this extreme bad news of the election results.

Always remember the adage: "Buy when others are fearful and sell when others are greedy." We even advised our investors to top up their accounts on the day of the fall, and I truly appreciate all those investors who did not listen to the chatter on the news channels and social media and instead followed the simple principle mentioned above. Please remember, news channels are here to sell news and will create feelings of greed and fear, which are most detrimental to an investor.

We have taken a significant step at Invasset. As you may have noticed over the past couple of months, we were juggling between expensive markets and a possible fall. What I realized is that trying to shift the entire portfolio from growth stocks to other stocks from time to time does not tend to save much. It involves too many factors:

1. There are too many decisions, and decisions have a tendency to be wrong.
2. It involves transaction costs and opportunity costs.
3. It involves paying capital gains.
4. Lastly, it involves straying from the investor's attitude

To focus on the best of both worlds, we have decided to hedge your portfolios through long-term puts. The beta for our portfolio is currently around 1.25 to 1.5. We have hedged almost all domestic portfolios to beta of 1, and as the markets become more expensive, we may use the remainder to hedge further. When we buy a put, if the market falls and the stocks correct around 25% while the Nifty falls 18%, our portfolio would fall only 7% when fully hedged. Conversely, if there is no fall in the market for the next six months, the growth stocks we are holding will grow much more, and we will be just left with the 3% cost we paid for the put, capitalizing on the extra growth our growth stocks have to offer.

By this approach, we can save on all the problems highlighted earlier. Please remember, I give you my word that we are not trading futures and options in your portfolio. Long-term puts are the best way to hedge your portfolio when you feel the markets are expensive. It does not involve any day-to-day paying or payouts and is purely a vanilla hedging strategy.

I personally believe that options are often misrepresented because they are used for purposes other than their original design. Various traders use options for day-to-day trading for short gains or to fulfill their gambling tendencies. We are using options as they were originally intended: to provide insurance. This combination of growth and hedging, I believe, provides an optimal balance to our portfolio, allowing us to ride the growth while not being overly concerned about a significant market fall.

For our NRI investors, hedging is not an option as the RBI does not permit any trade in futures and options. We are actively seeking a solution to balance your portfolios. However, please don't worry. We are closely monitoring your portfolios and will make timely decisions as needed. All my NRI client portfolios are very close to my heart, and I assure you that I will give my utmost effort to ensure as much similarity as possible between our domestic and NRI portfolios. Please remember, you are in the best growth stocks according to INVasset's calculations. s

In conclusion, thinking long-term, growth is the only solution in the stock market as the market rewards relative growth and nothing else. So let's not be afraid of any options data you see in your portfolio. It is akin to buying insurance from the stock market and nothing else.

Thank you for your continued trust and support.

Warm regards,

Anirudh Garg