

# INVASSET NEWS

Edition 9 - September 2024

INX  
ASSET



## BREAKING NEWS

MARKETS ARE CLEARLY IN THE EXPENSIVE ZONE. FOCUS ON CAPITAL PRESERVATION RATHER THAN CAPITAL APPRECIATION



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**Indian Markets surging to All Time Highs Today: What's Happening Post Fed Decision?**

Sep 24 2024

*Mr. Anirudh Garg in an interview with Business Insider India*

Indian markets surging to all time highs. The BSE Sensex climbed up by as much as 1,400 points during the day, to close at 84544.31. Nifty wasn't far behind, inching up over 1% during the day to close at 25790.95. What is driving this rally? And this is not just the secondary market. The primary market, i.e. IPO subscriptions are also witnessing a stellar surge in investor interest. The IPOs of Northern Arc Capital and Arkade Developers, which closed yesterday, were oversubscribed 117 times and 113 times, respectively, largely on the back of significant investments made via the QIB and NII categories.

But the question is, what is driving this frenzy, which comes on the heels of the Fed's recent announcement slashing interest rates by a significant 50 basis points?

Experts explain that the most direct impact of the rate cut comes in the form of higher foreign capital inflows into emerging markets like India. The impending anticipation of this is what is driving the rally witnessed in the stock market today. As per data from NSDL's FPI monitor, foreign investors infused a net total of Rs 2,341.64 crore in Indian equity markets via stock exchanges, as of September 19th, 2024. Data shows that September has seen inflows of around Rs 27,862 crores in first half of September. This is around 4 times the flows seen during the entire month of August. Just within this week (till September 19), FPI inflows have touched Rs 5,419 crores.

**What should your investment strategy be?**

Anirudh Garg- Founder and Fund Manager at Invasset PMS explains that "When markets hit an all-time high, investors need to reassess their strategies to navigate potential risks while still capitalizing on opportunities. However, it's essential to understand that not every market high signals overvaluation. There's a key difference between markets reaching record levels and being fundamentally expensive. Identifying this distinction helps avoid premature decisions based solely on market peaks".

"In particular, when mid-cap and small-cap stocks exhibit stretched valuations, investors should shift their focus to high-quality companies. These are firms with robust balance sheets, consistent earnings growth, and strong competitive advantages, often found in sectors linked to steady inflation", says Garg.

Naturally, quality stocks tend to be more resilient in volatile environments, offering stability and better protection against downside risk. Also, don't forget to keep an eye out for the risk-reward ratio, which becomes critical during expensive markets. This involves diversifying portfolios, avoiding overexposure to overheated sectors, and focusing on capital preservation while seeking reasonable returns.

To read the complete article click on the link : <https://www.businessinsider.in/stock-market/news/indian-markets-surging-to-all-time-highs-ipo-frenzy-on-top-whats-happening/articleshow/113528852.cms>



Anirudh Garg  
Fund Manager, Invasset PMS

“ Focus of the investor should shift from creation of wealth towards preservation of wealth. ”

“ Markets today are not in the value zone. I will go to the extent of saying that the markets have entered the expensive zone. ”

**Markets near record high! Why investors should prioritise quality stocks and manage risks amid stretched valuations***Mr. Anirudh Garg in an interview with Live Mint*

25 Sep 2024

As markets reach all-time highs, investors must discern between record highs and genuine overvaluation. Anirudh Garg advises focusing on high-quality mid-cap and small-cap stocks, emphasising risk management and diversification to navigate potential downturns while seeking sustainable growth.

Anirudh advises investors to avoid rash decisions based solely on the markets' new heights. He highlights the importance of understanding the difference between market highs and genuine overvaluation when making investment choices.

**The importance of quality in mid-cap and small-cap investments**

When mid-cap and small-cap stocks exhibit stretched valuations, Garg recommends investors focus on high-quality companies. These firms, with strong balance sheets, consistent earnings growth, and competitive advantages, are better positioned to weather market volatility. Sectors tied to stable inflation tend to house such quality stocks, offering resilience in challenging environments.

In economies like India, where inflation is relatively stable and well-managed, investing in high-quality stocks can deliver sustainable growth. These companies are better equipped to maintain profitability in tough market conditions, making them an attractive choice for long-term growth while minimising exposure to downside risks.

To read the complete article click on the link : <https://www.livemint.com/market/stock-market-news/markets-near-record-high-why-investors-should-prioritise-quality-stocks-and-manage-risks-amid-stretched-valuations-11727237192295.html>

**Daily Voice: Fund Manager - INVasset explains why he is bullish on consumer discretionary, domestic cyclical segments**
*In an exclusive interview with Daily Voice, Money Control*

August 31, 2024

We view consumer discretionary category as a major driver of growth and keep a bullish stance on stocks of consumer discretionary companies," Anirudh Garg, Partner and Fund Manager at INVasset, said in an interview to Moneycontrol. "The growth in incomes, the acceleration of urbanization, and an increase in the middle class, all contribute to the tremendous growth of the discretionary spending on such products like cars, electronic goods, travel, and leisure," he said, explaining one of reasons behind bullish stance on discretionary space.

With more than 17 years of research experience in the stock market, Anirudh Garg, who leads the Quant team, also remains bullish on the domestic cyclical sectors, including power, capital expenditure (capex), and manufacturing, viewing the recent market trends as part of a broader "old economy" resurgence.

**Money Control : Do you see the risk of NIM compression for the banking names given the possibility of beginning of interest rate cuts? Despite this, are you bullish on the space?**

**Anirudh Garg :** The chance of interest rate cuts can firstly give rise to a case of net interest margin (NIM) compression in the banks, because lower rates may cut the spread between the interest revenue generated from the loans and the interest paid on the deposits. However, the impact is not uniform across all banking names. Those banks having strong CASA (Current Account Savings Account) balances and low-cost structures are the ones who can better endure this compression. Further, the sequences of rate punches are the major causes of triggering the interaction of credit activities and demand for increased credit which counterbalances some of the NIM pressure; thus, the influence on the economy of India could be one of the main causes. With the current quest for India's economic growth and digital financial inclusion in progress, we are still positive about certain banking names with outstanding fundamentals, high-quality asset portfolio, and diversified product offering. These factors, as part of a comprehensive approach that includes the efficient management of costs and the embrace of digital banking technologies, are likely to provide support to their profit and growth, although NIM compression is inevitable.

**Money Control : Will India's share in the global manufacturing space more than double in the next decade?**

**Anirudh Garg :** The Indian market is expected to have an important spot in manufacturing on a global scale soon. Many factors are cited as reasons for such an upbeat outlook, such as government campaigns like Make in India, Production-Linked Incentive (PLI) schemes, and infrastructure investments. What is more desirable is the fact that India benefits from its demographic dividend: the country has a young and skilled workforce. The change in global supply chains, driven by the complex of geopolitical factors and the drive to reduce the China embracement also aids India's manufacturing quest. However, the difficulties including the infrastructure deficiencies, regulation issues, and the lack of high-tech progress must be resolved. If India effectively overcomes these obstacles, the country's production scale in the global market will greatly increase, thus making it possible for India to become a \$ 5-trillion economy as it aspires.

**Money Control : Will India maintain 6 percent economic growth in the coming years?**

**Anirudh Garg :** India showing 6 percent economic growth in the coming years is a sustainable scenario as the best macroeconomic parameters include both, democratic dividend plus the reforms the government does. The country's growth is built on diverse economic sectors like the increased services, industrial, and economic parts. However, this growth will demand prolonged structural reforms, investments in infrastructure, and policies that stimulate innovation and entrepreneurship. Though there is a high degree of uncertainty concerning global scenarios of geopolitical conflicts, commodity price instability due to potential external interventions, India shows a strong domestic demand, is digitized, as well as is in the process of becoming a global manufacturing center, which gives a sound base for sustainable growth. A realistic goal of 6 percent is feasible with prudent fiscal care and wise policy decisions.

**Money Control : Are you overweight on the consumer discretionary space?**

**Anirudh Garg :** Due to the consumer space's favourable macroeconomic conditions and transforming customer buying patterns in India with the premiumization trends we are optimistic. The growth in incomes, the acceleration of urbanization, and an increase in the middle class, all contribute to the tremendous growth of discretionary spending on such products like cars, electronic goods, travel, and leisure. Moreover, the digital revolution has driven the e-commerce sector to flourish and it has given all the consumer discretionary companies new challenges thus supporting them. Although the threat of inflation and economic slowdown is there, the narrative of India's consumption is strong, due to its young population and improvement in consumer confidence. Companies that will stand out through the force of branding and novelty, alongside potent and well-organized distribution networks, predictably are going to capitalize the most. Therefore, we view this category as a major driver of growth and keep a bullish stance on stocks of consumer discretionary companies.

**Money Control : Are you positive on the domestic cyclical including power, capex, and manufacturing?**

**Anirudh Garg :** We remain positive on the domestic cyclical sectors, including power, capital expenditure (capex), and manufacturing, viewing the recent market trends as part of a broader "old economy" resurgence. This resurgence is primarily driven by sectors sensitive to interest rates and focused on capital expenditure, which are pivotal in the current economic environment. While some stocks in the capex sector have experienced price corrections, we see this as a natural phase in market cycles, reflecting a period of consolidation and adjustment. These corrections may extend into a time correction phase, where prices stabilize over a period, preparing for the next growth leg. Despite these short-term fluctuations, the long-term outlook for these sectors remains robust. The government's emphasis on infrastructure development, energy transition, and "Make in India" initiatives provide a strong foundation for sustained growth. In the power sector, particularly renewables, substantial investments are expected to drive future expansion. Similarly, increased public and private sector spending on infrastructure, industrial projects, and smart cities indicates a promising capex cycle ahead. Manufacturing is also positioned to benefit from this momentum, supported by favourable government policies and a shift in global supply chains. Therefore, we maintain a bullish stance on domestic cyclical, anticipating solid growth opportunities in the long term.

Click on the link for the complete interview : <https://www.moneycontrol.com/news/business/markets/daily-voice-this-fund-manager-explains-why-he-is-bullish-on-consumer-discretionary-domestic-cyclical-segments-12811125.html/amp>

Dear Investors,

30 September 2024

At INVasset, we follow a structured, disciplined strategy based on four stages: Value, Growth, Quality and Safety. Each stage is designed to navigate market conditions and optimize returns while managing risks. Our proprietary indicators guide us in transitioning between these stages to ensure the best opportunities are captured. Below, we'll explain how each phase has played out since our inception on 8 January 2020, the challenges we've navigated, and what you can expect from us going forward. This is the most important letter I'm writing to you, and I do so with 100% transparency. I'm giving you a bite of reality—the truth about market ups and downs, and what you can expect from us in the long term.

## The Four Stages of INVasset's Investment Strategy

### 1. Value:

The Value stage focuses on buying companies that are trading below their intrinsic value. These are fundamentally strong businesses that are underpriced due to widespread market fear. Events like the COVID-19 pandemic in March 2020 or geopolitical conflicts like Russia Ukraine Conflict in February 2022 often create such opportunities.

### 2. Growth:

In the Growth stage, we invest in companies with high earnings and revenue growth potential. This phase usually occurs after a market recovery and continues through a bull run. Growth companies benefit from structural shifts in the economy and deliver significant alpha.

### 3. Quality:

The Quality stage involves investing in companies with strong management, industry leadership, competitive moats, and stable earnings. These are typically blue-chip stocks that perform well during volatile markets, offering lower risk with continued potential for growth.

### 4. Safety:

The Safety stage involves moving into cash, defensive assets, or hedging the portfolio using long-term puts. This stage is critical for capital preservation, especially during expensive or highly risky market conditions. Safety allows us to protect your wealth while avoiding exposure to overpriced markets.

There will come a time when something like 2008 happens again. During that period, the Nifty lost 66% of its value. This highlights why the Safety stage is important, to avoid such catastrophic losses and preserve wealth. When the markets eventually collapse or correct sharply, Safety enables us to ride through those periods without significant damage.

## How These Stages Have Played Out Since Inception(8 January 2020)

We have included screenshots and figures below to illustrate how the portfolio has performed through various market conditions since 2020. All figures mentioned are after expenses and fund management fees, and we have taken special permission from our first investor to use their figures to explain INVasset's strategy and its workings.

### Why has this investor been successful?

Because she only looks at her portfolio once a year. She doesn't get distracted by short-term fluctuations. By remaining patient and trusting the long-term process, she has seen substantial growth.

### January 2020 to March 2020 – Quality Phase

Our focus on Quality stocks helped protect the portfolio during the initial COVID-19 market crash. The overall decline was less severe than the benchmark.

- Portfolio Return: -25.79%
- Benchmark (BSE 500): -28.29%

### March 2020 to July 2020 – Value Phase

As markets recovered from the pandemic-induced crash, we moved into the Value phase. Investing in undervalued companies during this period resulted in strong gains.

- Portfolio Return: 29.89%
- Benchmark: 34.52%



**July 2020 to May 2021 – Growth Phase**

The market entered a bull run, and we positioned the portfolio in Growth companies, leading to excellent returns during this phase.

- Portfolio Return: 117.71%
- Benchmark: 48.05%

**May 2021 to February 2022 – Safety Phase**

In mid-2021, we transitioned to the Safety phase. Although markets showed signals for a shift to Quality, we opted for Safety to preserve capital during uncertain times.

- Portfolio Return: -4.69%
- Benchmark: 10.05%

**February 2022 to November 2022 – Value Phase**

Market corrections created new opportunities for Value, and we shifted back into undervalued companies, capturing moderate gains.

- Portfolio Return: 14.73%
- Benchmark: 13.99%

**November 2022 to July 2024 – Growth Phase**

Our portfolio remained in the Growth phase, capturing strong returns as the market rallied. However, in July 2024, we carefully monitored signals indicating the potential benefits of transitioning into Quality. However, we maintained a focus on Growth at the time to leverage the ongoing bullish sentiment in the market.

- Portfolio Return: 131.47%
- Benchmark: 56.82%

**Learning from Strategic Shifts and Refinements:**

While some decisions may not have captured every market opportunity, each adjustment is a learning experience that contributes to refining our quantitative strategy. Instead of viewing them as errors, they represent key insights that allow us to continuously improve. For example, when the market signaled a shift from Growth to Quality in May 2021, our choice to prioritize Safety led to missed potential returns, but also preserved capital during heightened uncertainty. Similarly, overstay in Growth in July 2024 provided us valuable data to fine-tune our strategy for better alignment with future cycles. These adjustments are part of our commitment to capital preservation and long-term performance, ensuring we are positioned to learn and grow alongside market dynamics.

**What Investors Can Expect from Us****1. Time Period and Patience:**

We emphasize the importance of a minimum 3-year view to fully cover all four stages of the investment cycle. The market can be volatile in the short term, but with a longer horizon, you can benefit from the complete cycle and maximize returns. Shorter views may result in missed opportunities and underperformance.

**2. Risk and Reward Guidelines:**

Our objective is to limit down side risk to 20%, although extreme market events may occasionally result in greater declines. On the upside, our goal is to outperform the market by 1.5 to 2 times during bull phases. Since inception, we've achieved a CAGR of 40.37%, significantly surpassing the BSE 500's 22.78%.

While our absolute returns have consistently been higher over the long term, these risk and reward guidelines are targets set by your fund manager and team—they reflect our ambitions, but they are not guarantees.



**3. Transparency and Diligence:**

We believe in being transparent about both successes and the refinements to our strategy. Each decision, whether in hindsight it resulted in a gain or a learning opportunity, contributes to improving our long-term approach. Our focus remains on delivering sustainable performance for our investors.

**What We Are Doing Now**

Currently, we believe that markets are expensive and are carefully assessing our next moves. In the coming months, we will shift part of the portfolio to Quality, with a combination of the following steps:

**1. Re-emergence of Value Opportunities:**

With recent market corrections, Value opportunities are re-emerging. We are closely monitoring conditions and will carefully assess when to shift into this phase fully.

**2. Three-Step Strategy for the Coming Months:**

- **Stop-Losses:** If market conditions deteriorate, we will implement stop-losses to protect against further downside risk.
- **Profit-Taking Targets:** In the case of a market rebound, we will set price targets to lock in gains and avoid further corrections.
- **Cash and Hedging:** If volatility persists, we may shift a portion of the portfolio into cash or hedge it using long-term puts. INVasset will not charge any management fees during periods when we move into cash or liquid funds.

**3. Quality Shift:**

In addition, as part of our strategy to navigate the current market, we will shift part of the portfolio to Quality. We believe that in these expensive markets, Quality stocks provide the necessary stability while allowing us to hedge against potential downturns.

**Lean and Green Periods – Market Corrections**

Lean periods in the market are inevitable, but they are part of a long-term investment approach. Markets are not about instant gratification but about long-term wealth creation. There will be ups and downs, and as investors, you must be prepared for them. Historically, lean periods can vary significantly, ranging from three months, such as from March 2006 to June 2006, to 27 months, such as from December 2017 to March 2020. This shows that patience is crucial to navigating these phases. One challenge with investing is that many investors enter the market during expensive phases, often with expectations shaped by previous periods of strong wealth creation. It's important to be prepared: stock markets are not a money tree you can simply shake for quick returns. They are complex, sophisticated assets that tend to outperform other investments—but only if approached with patience and a long-term perspective.

**Lean Periods:**

The lean period from 30 June 2021 to 30 April 2023, a total of 670 days, resulted in modest absolute returns of 2.25% for the portfolio, while the benchmark gained absolute 8.05%. During this time, it was challenging to see substantial gains. Markets tested patience with time corrections (sideways movement with no significant price movement) and price corrections (actual market drops). This is reality—markets will test you with time and price corrections. Enduring these lean periods is crucial to achieving success in the long run.

**Green Periods:**

The subsequent green period from 30 April 2023 to 30 July 2024 saw the portfolio achieve returns of 170.12%, while the benchmark returned absolute 56.29%. This showcases the rewards of sticking through the full market cycle, as long-term growth often follows lean periods.

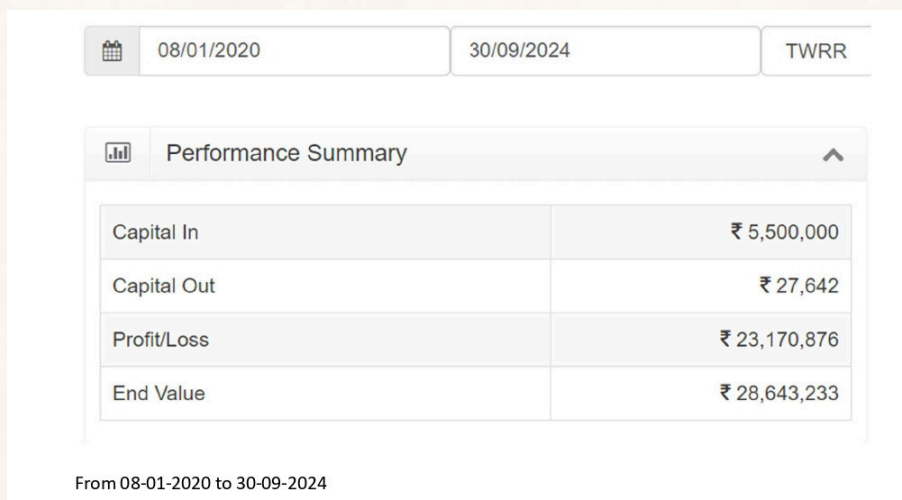
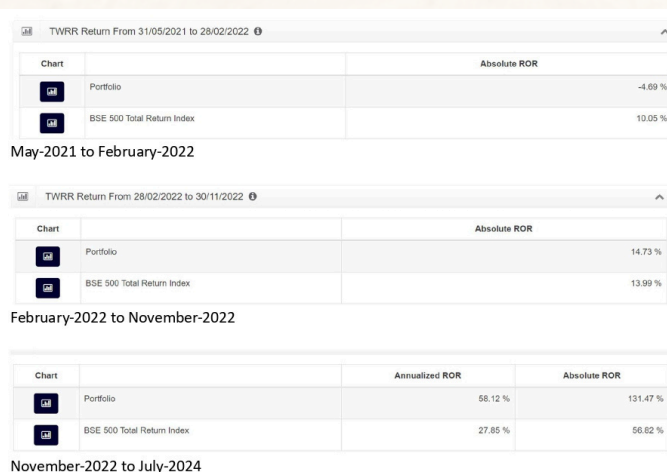
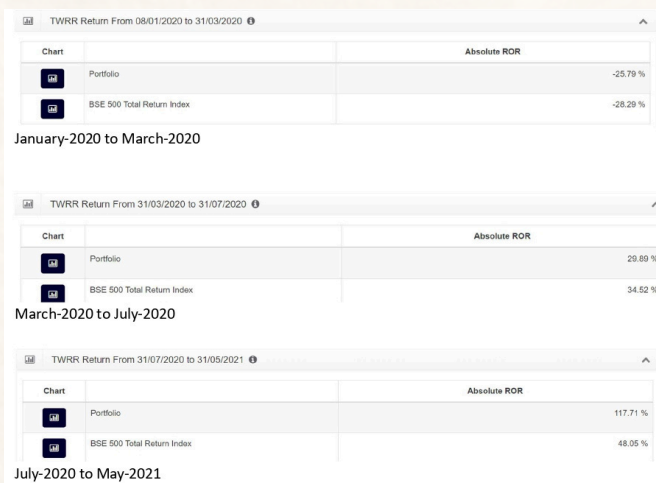


## Comparing Strategies

Comparing fund managers or strategies based on short-term performance will lead to dissatisfaction. Every strategy performs differently during different phases of the market cycle. We believe in giving our strategy at least three years to prove its merit and suggest comparing performance only after such a period.

## Long-Term Investment Results: A Focus on CAGR

On 8 January 2020, an initial investment of ₹50,00,000 was made, followed by a top-up of ₹5,00,000 in May 2022. As of 30 September 2024, that investment has grown to ₹2,84,63,233, as seen in the attached screenshots. This reflects a CAGR of 40.37%, significantly outperforming the BSE 500's CAGR of 22.78% over the same period.



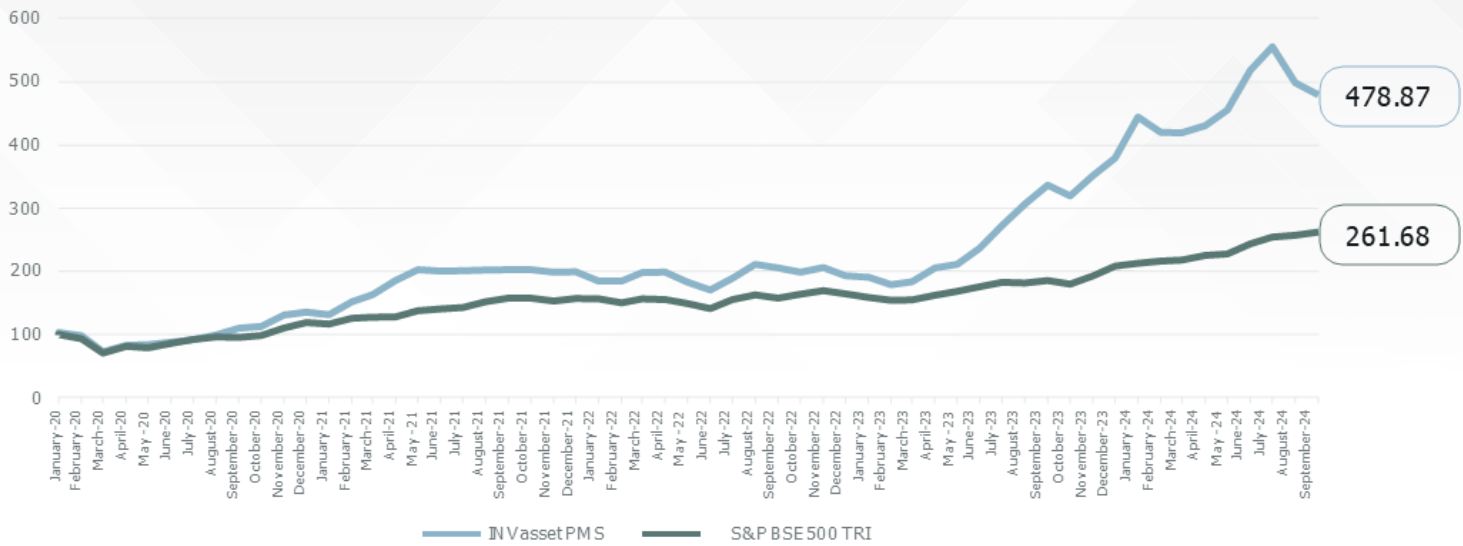
This demonstrates the power of long-term investing and sticking through the full market cycle. We urge investors to commit to a 3-year investment horizon to ensure full cycle coverage and maximize returns. We have included screenshots to illustrate these stages and their impact on the portfolio.

Thank you for your trust and continued confidence in INVasset. We look forward to navigating future market cycles together.

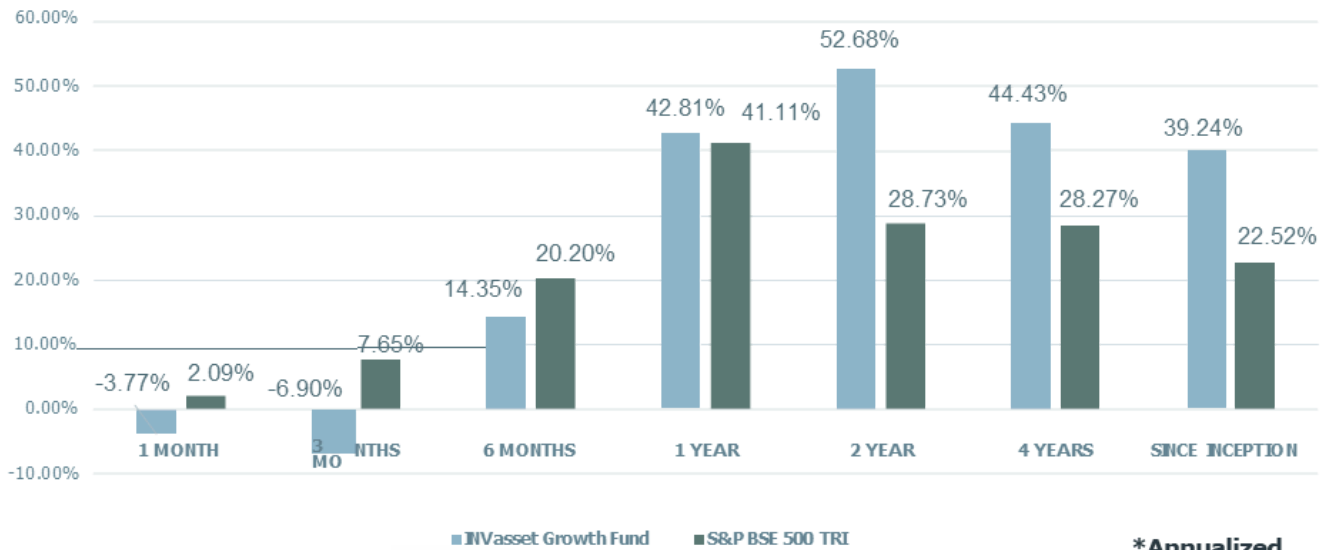
Best regards,  
Anirudh Garg  
Fund Manager,  
INVasset PMS



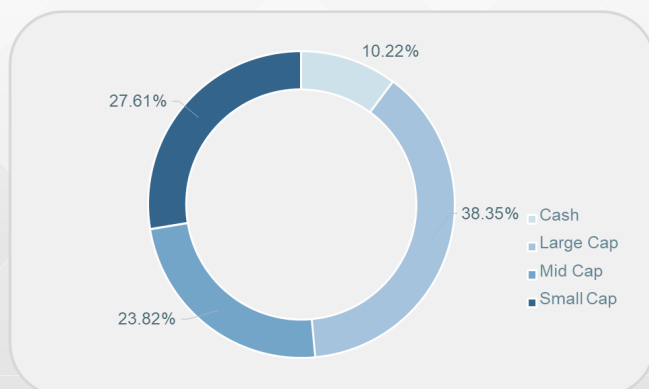
## INVasset Growth PMS Fund Performance –Absolute Basis



## INVasset Growth PMS Fund Performance –Period Wise



## MARKETCAP CLASSIFICATION



### INVasset Growth PMS Fund Top 5 Holdings

| Security                                   | Assets% |
|--------------------------------------------|---------|
| Garden Reach Shipbuilders & Engineers Ltd. | 11.19%  |
| Mazagon Dock Shipbuilders Ltd.             | 10.24%  |
| Cochin Shipyard Ltd.                       | 5.80%   |
| Amara Raja Energy & Mobility Ltd.          | 3.43%   |
| Reliance Industries Ltd.                   | 3.21%   |

### INVasset Growth PMS Fund Top 3 Sectoral Exposure

| Security | Assets% |
|----------|---------|
| Defence  | 30.23%  |
| Power    | 11.20%  |
| Finance  | 10.19%  |

| Month          | INVasset PMS<br>% Absolute Return | S&P BSE 500 TRI<br>% Absolute Return |
|----------------|-----------------------------------|--------------------------------------|
| January - 20   | 100                               | 100                                  |
| January - 20   | 2.97%                             | 102.97                               |
| February - 20  | -4.63%                            | 98.20                                |
| March - 20     | -25.98%                           | 72.69                                |
| April - 20     | 14.42%                            | 83.18                                |
| May - 20       | 0.79%                             | 83.83                                |
| June - 20      | 4.88%                             | 87.92                                |
| July - 20      | 4.51%                             | 91.89                                |
| August - 20    | 8.34%                             | 99.56                                |
| September - 20 | 10.55%                            | 110.06                               |
| October - 20   | 2.70%                             | 113.03                               |
| November - 20  | 15.73%                            | 130.80                               |
| December - 20  | 3.40%                             | 135.24                               |
| January - 21   | -3.02%                            | 131.16                               |
| February - 21  | 15.66%                            | 151.70                               |
| March - 21     | 7.40%                             | 162.93                               |
| April - 21     | 13.79%                            | 185.41                               |
| May - 21       | 9.15%                             | 202.36                               |
| June - 21      | -1.06%                            | 200.21                               |
| July - 21      | 0.34%                             | 200.89                               |
| August - 21    | 0.51%                             | 201.91                               |
| September - 21 | 0.14%                             | 202.20                               |
| October - 21   | 0.25%                             | 202.71                               |
| November - 21  | -2.11%                            | 198.42                               |
| December - 21  | 0.30%                             | 199.01                               |
| January - 22   | -7.41%                            | 184.27                               |
| February - 22  | 0.09%                             | 184.45                               |
| March - 22     | 7.41%                             | 198.11                               |
| April - 22     | 0.16%                             | 198.42                               |
| May - 22       | -7.97%                            | 182.62                               |
| June - 22      | -6.89%                            | 170.03                               |
| July - 22      | 0.09%                             | 189.00                               |

| Month          | INVasset PMS<br>% Absolute Return | S&P BSE 500 TRI<br>% Absolute Return |
|----------------|-----------------------------------|--------------------------------------|
| August - 22    | 11.65%                            | 211.01                               |
| September - 22 | -2.71%                            | 205.30                               |
| October - 22   | 3.20%                             | 198.73                               |
| November - 22  | 3.63%                             | 205.30                               |
| December - 22  | -6.47%                            | 192.62                               |
| January - 23   | -1.17%                            | 190.36                               |
| February - 23  | -6.19%                            | 178.58                               |
| March - 23     | 2.64%                             | 183.30                               |
| April - 23     | 11.82%                            | 204.97                               |
| May - 23       | 2.93%                             | 210.97                               |
| June - 23      | 12.21%                            | 236.72                               |
| July - 23      | 15.09%                            | 272.44                               |
| August - 23    | 12.36%                            | 306.12                               |
| September - 23 | 9.83%                             | 336.22                               |
| October - 23   | -5.14%                            | 318.93                               |
| November - 23  | 10.09%                            | 351.10                               |
| December - 23  | 7.84%                             | 378.64                               |
| January - 24   | 17.14%                            | 443.53                               |
| February - 24  | -5.40%                            | 419.57                               |
| March - 24     | -0.19%                            | 418.78                               |
| April - 24     | 2.73%                             | 430.23                               |
| May - 24       | 5.70%                             | 454.77                               |
| June - 24      | 13.11%                            | 514.38                               |
| July - 24      | 7.88%                             | 554.91                               |
| Aug - 24       | -10.32%                           | 497.63                               |
| Sep - 24       | -3.77%                            | 478.87                               |

*Disclaimer : Investments in Portfolio Management Services (PMS) are subject to market risk, including the potential loss of principal. Past performance is not indicative of future results. Our PMS operates under SEBI regulations and all information provided is for informational purposes only, not to be construed as investment, legal or tax advice. Investors should consult their own advisors before making investment decisions. There is no guarantee or guidance of returns and the value of investments may fluctuate. For more information please visit our website or contact our customer service department.*

## Calendar Year Returns

|                  | INVasset PMS | S&P BSE 500 TRI |
|------------------|--------------|-----------------|
| Jan 20 to Dec 20 | 35.24%       | 19.39%          |
| Jan 21 to Dec 21 | 47.15%       | 31.63%          |
| Jan 22 to Dec 22 | -3.21%       | 4.77%           |
| Jan 23 to Dec 23 | 96.57%       | 26.55%          |
| Jan 24 to Sep 24 | 26.47%       | 25.60%          |

## Financial Year Returns

|                      | INVasset PMS | S&P BSE 500 TRI |
|----------------------|--------------|-----------------|
| Jan 20 to March 20   | -27.31%      | -28.22%         |
| April 20 to March 21 | 124.14%      | 78.63%          |
| April 21 to March 22 | 21.59%       | 22.26%          |
| April 22 to March 23 | -7.48%       | -0.91%          |
| April 23 to March 24 | 128.47%      | 40.16%          |
| April 24 to Sep 24   | 14.35%       | 20.20%          |

## Ratios & Risk (as on Sep, 2024)

| Standard Deviation | Beta | Sharpe Ratio | Treynor Ratio |
|--------------------|------|--------------|---------------|
| 8.08%              | 1.09 | 4.22         | 0.29          |

The Japanese asset price bubble, which occurred during the late 1980s to early 1990s, was one of the most dramatic financial bubbles in modern history. This bubble was characterized by highly inflated real estate and stock market prices in Japan, fueled by excessive speculation, easy credit, and aggressive monetary policies.

Here's a detailed breakdown of the Japanese asset price bubble:

#### Key Phases and Drivers:

##### 1. Economic Context (Post-WWII Recovery):

- Japan's post-World War II economy grew rapidly, with manufacturing and exports leading the way. By the 1970s and 1980s, Japan became the second-largest economy in the world.
- The Japanese yen appreciated significantly after the 1985 Plaza Accord, making exports less competitive. In response, the Japanese government eased monetary policy, lowering interest rates to stimulate domestic investment.

##### 2. The Bubble (1986-1991):

- Low Interest Rates:** The Bank of Japan (BoJ) maintained low interest rates to boost domestic demand, encouraging excessive borrowing by individuals and corporations.
- Excessive Lending and Speculation:** Banks offered cheap credit, leading to speculative investments in both real estate and the stock market. Corporations and individuals heavily invested in assets, anticipating that prices would continue to rise indefinitely.
- Skyrocketing Asset Prices:**
  - Real Estate:** Urban real estate prices surged, with land in Tokyo's prime areas reaching astronomical valuations. At its peak, the total value of Tokyo's real estate was said to be greater than the entire value of real estate in the United States.
  - Stock Market:** The Nikkei 225, Japan's main stock index, tripled from around 13,000 in 1985 to an all-time high of nearly 39,000 in December 1989.
  - Corporate Investments:** Many companies used their inflated stock prices as collateral to take on more debt, which they then used to invest in real estate or buy foreign assets.

##### 3. Collapse of the Bubble (1991 Onward):

- Tightening of Monetary Policy:** To curb inflation and the overheating economy, the Bank of Japan raised interest rates in the late 1980s, making borrowing more expensive.
- Bursting of the Bubble:** By 1991, both real estate and stock prices began to plummet. The Nikkei 225 lost more than half its value by 1992, and real estate prices in Japan's urban areas dropped by as much as 80%.
- Debt Crisis:** Many companies and banks were left with massive debts, much of which was backed by assets whose value had evaporated. This led to a banking crisis and a credit crunch, as banks were reluctant to lend.

#### Impact:

##### 1. Lost Decade(s):

- The bursting of the asset price bubble ushered in a prolonged period of economic stagnation known as the "Lost Decade," which arguably extended into the 2000s.
- Japan faced deflationary pressures, weak consumer demand, and sluggish economic growth for years, with many of the underlying structural issues persisting for decades.

##### 2. Zombie Corporations:

- Many companies and banks survived only due to government support, but they were burdened by excessive debt, unable to invest or innovate effectively. These "zombie companies" became a symbol of the stagnation in Japan's economy.

##### 3. Banking Crisis:

- Japan's financial sector suffered deeply as banks were left with bad loans. Many required bailouts, and the government injected trillions of yen into the economy to stabilize the financial system.

#### Lessons and Legacy:

- Monetary Policy:** The Japanese asset bubble highlighted the risks of overly loose monetary policy and the dangers of speculative excess. It became a cautionary tale for central banks worldwide.
- Deflation:** Japan's struggle with deflation became a unique case study, as the country battled falling prices and weak demand for many years after the bubble burst.
- Economic Stagnation:** Despite multiple stimulus efforts, Japan struggled to regain the economic momentum it had prior to the bubble, becoming one of the slowest-growing major economies in the decades that followed.

In summary, the Japanese asset price bubble was a product of speculative excess, fueled by easy credit and aggressive monetary policies, which resulted in one of the most severe economic downturns in modern history when it burst. The aftermath of the bubble profoundly impacted Japan's economic trajectory for decades.

**Q.1: A portfolio manager is concerned about interest rate risk. Which of the following instruments would best help the manager hedge against an increase in interest rates?**

- A) Long bond futures      B) Short bond futures  
C) Long equity futures      D) Short equity futures

**Q.2. Which of the following best describes the primary goal of passive portfolio management?**

- A) Outperforming the market index      B) Replicating the performance of a benchmark index  
C) Identifying undervalued securities      D) Achieving risk-adjusted returns higher than the market

**Q.3 Which of the following risk measures is primarily concerned with downside risk, rather than total risk?**

- A) Standard deviation      B) Variance  
C) Value at Risk (VaR)      D) Beta

**Q.5 Which of the following best describes strategic asset allocation?**

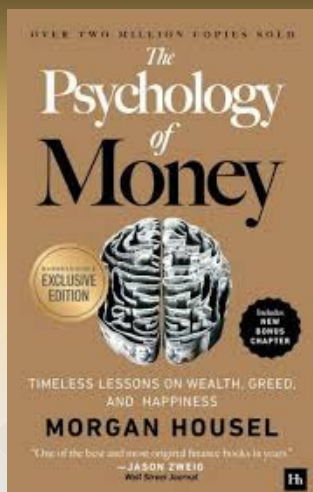
- A) Adjusting the portfolio frequently based on short-term market movements      B) Selecting securities that are expected to outperform over the next quarter  
C) Setting long-term target allocations for different asset classes and periodically rebalancing      D) Hedging the portfolio against political and economic risks

### Question of month

An investor displays the following tendencies: He avoids realizing losses on poorly performing stocks in his portfolio, hoping the prices will recover. He is quick to sell stocks that have recently increased in value, locking in the gains. He attributes success in rising stocks to his skill but blames external factors when stocks decline in value. Which of the following behavioral biases best describe the investor's behavior?

- A) Loss aversion, disposition effect, and illusion of control      B) Overconfidence, endowment effect, and mental accounting  
C) Disposition effect, self-attribution bias, and loss aversion      D) Anchoring, confirmation bias, and representativeness

### Book of the Month !



### Answers to Quiz

Answer 1 : B) Short bond futures

Answer 2 : B) Replicating the performance of a benchmark index

Answer 3 : C) Value at Risk (VaR)

Answer 4 : C) Setting long-term target allocations for different asset classes and periodically rebalancing

### Answer to Question of the Month

C) Disposition effect, self-attribution bias, and loss aversion

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