Monday Chronicles - Letter from the Fund Manager

Dear Investors, **03 October 2025**

At INVasset, our order of priorities has always been clear:

1. **Preservation of capital**
2. **Generation of alpha**

Whenever I have to choose between the two, preservation of capital comes first. That principle guides the decision we have recently taken — to move your portfolios into cash and liquid funds.

Why we have taken this step?

The Indian markets made their high on 27th June 2025. Until then, conditions looked normal, and unlike many who turned bearish early, we stayed steadfast with our system.

In strong bull markets, history shows that after a correction to the 20-day low, markets typically bounce back to make fresh highs. This was the case in 1999, 2004, 2006, 2016 and 2018. Initially, we believed this pattern could repeat. However, this time the market did not stop at the 20-day low. It continued lower — and more importantly, failed to show the minimum strength that any healthy market should.

We gave it the benefit of doubt, especially as some of the falls were linked to news events. But markets also have a time window to recover. When that period lapsed without a rebound, it became clear that something is temporarily fractured in the Indian market's structure.

The global comparison

Since 27th June, if you look at how the Dow Jones, NASDAQ, Canada, Korea, and Japan have behaved versus India — the difference is stark. The world markets are stronger; India is lagging.

Adding to this concern is the weakening of the Indian rupee against the US dollar. If India is to grow on a sustainable basis, this weakness must stop. Otherwise, we risk remaining a market where capital consistently flows out rather than coming in. This does not mean we are in a bear market. But when weaker markets enter a down leg while stronger ones are still running, the eventual drawdowns tend to be sharper. That is the risk we want to protect you from.

The momentum signal

One of our strongest indicators is our custom Momentum Index. Think of momentum as the energy of youth in the market — in a real bull run, momentum keeps making new highs. But in this cycle, momentum failed to cross the peak it made in February 2025. This has only happened three times before:

- The bear market of 2000
- The bear market of 2008
- The correction post-2018

That failure is a warning signal.

Interestingly, this time broader indices like midcaps and smallcaps are not following the same weakness pattern. This is why we continue to believe this is not a bear market — just a temporary weakness specific to India.

The road ahead

We expect that as global indices eventually correct, Indian markets may test their 500-day moving averages. That would give us a comfortable base to re-enter with conviction.

Our approach is deliberate:

- No chasing every stock that rises
- No unnecessary portfolio churns (which hurt performance in this phase)
- Patience until strength returns

This is only a breather — one we have taken before, and one we will take again whenever the system demands. A detailed video is being sent to you over the weekend, for detailed explanation of the above.

Moving to cash is not a matter of "gut feeling" or reacting to temporary underperformance. It is a system-driven decision to protect your capital first. Your money is parked in liquid funds and arbitrage funds for safety. We remain watchful, and as soon as our system confirms that strength has returned — which could be in the coming months — we will re-enter and participate in the next wave. Every run has its pauses, and India has always resumed its long-term upward journey. We believe this time will be no different.

Warm regards,
Anirudh Garg
Fund Manager, INVasset PMS