

Fund Managers Commentary

The Girik Multicap Growth Equity Strategy is inspired by the CANSLIM philosophy of stock picking developed by American investor William J. O'Neil. The goal of this strategy is to identify leading companies from leading industry groups that show sharp acceleration in earnings, newness in products or change in management and suggests buying them at the right price with enough margin of safety ahead of the company's major stock price advance.

December was yet another great month for the markets across the board. The midcap and smallcap indices rallied alongside headline indices, which closed the month near their all-time highs. This also marked an end to one of the most eventful years in modern history. The fear-struck markets saw a bear crash and a bull run, all in the same year, led by the economic disruption caused by the Pandemic. The industry leadership continued to be dominated by IT services, online classifieds, construction materials, and consumer durables. The pharmaceutical sector fell off the leadership chart after months of stagnating performance while metals strengthened their position.

The raging markets across the world have confused everyone on the street. All the forecasts from the best of the pundits have been proven wrong as nobody saw a rebound as quick as the one we witnessed. When investors keep their eyes on the news and ears to the doomsayers, they are almost always bound to fail. Investors, like all humans, are always marred by the tremendous degree of recency bias. The recent events invariably get much larger attention, and, as a result, investors collectively believe that the recent past will be repeated. For example, there is always disbelief in the rally from the market bottom and many investors wait for an eternity to get back in the game. The memory of the fall and the desire to see the repeat, keep them out until half of the bull market is over. They confirm their stand by watching the news, which is obviously all bad. Similarly, at the bull market peak, investors start believing that nothing can go wrong and go all out buying stocks at peak prices just to experience the ensuing fall. Ironically, the news at the peak is all good.

So, how does an investor fight the biases and become smart from the start? To overcome all sorts of biases, smart investors build robust systems and plans. These systems help investors position themselves during market reversals and also find the leading stocks and sectors when markets come out of the bottom. The best input in these systems is the stock price because the price is always a leading indicator of what is coming. Therefore, looking at the price action with a magnifying glass at market peaks and bottoms can not only help investors limit damages in brutal falls but also catch some blockbuster trends fresh out of the bottom.

We track the price movements using our automated proprietary screening system. Our screeners highlight the strongest stocks in times of general weakness and also alert us when the leading sectors lose steam towards the end of a bull market. The system also helps us find attractive investment opportunities at all other times. We have built these systems with years of market observation, after meticulously filtering out repeatable and non-repeatable patterns. These screeners help us avoid all the noise and make us look beyond the news. They also help keep all our investing biases in check, besides churning out leaders and keeping us away from the laggards. We continue to fine-tune our systems to make the investment process as objective as possible.