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.

January was another volatile month for the markets across the globe. The headline indices along with broader market indices swung up in the first half of the month only to give back all the gains in the second half, closing flat for the month. Though volatility has gripped the markets, the Indian markets have smartly withstood the barrage of selling from the FIIs, which amounted to over $19 billion in the last 4 months. The resilience was supported by consistent buying by the DIIs and retail investors.

The industry leadership was dominated by textiles, IT, power, industrial goods, select automotive and clean energy related sectors. Sugar and related sector stocks also crept up the leadership charts led by positive developments around the ethanol part of the business. The past 2 years have been a blessing for the investment community at large. Many investment managers have been thumping the drums on their outperformance versus the index and attribute it to their skill. But let's face it, investment returns are not only skills. There is definitely an element of luck, especially when we are considering a time period as short as 2 years.

In his impressive book, The Success Equation: Untangling Skill and Luck, Michael Mauboussin says, "there is a quick and easy way to test whether an activity involves skill: ask whether you can lose on purpose".

You can't lose a game of luck like a lottery deliberately, but you can definitely lose a game of skill like poker on purpose. When it comes to investing, you can't purposely lose or underperform in shorter horizons like a day or month. If you expand the horizon to a little longer, like a year, you can probably lose on purpose. If you further expand the horizon to a decade, you can definitely lose on purpose doing all the wrong things over and over.

Investing lies somewhere in the middle of the luck and skill spectrum. It is clear that the outperformance in the shorter time horizons can be because of a stroke of luck. One could just happen to be at the right place at the right time. All money managers, no matter how sharp they are, see interim periods of underperformance, which they never attribute to their skill. However, as you expand the investing horizon, skill plays an important role in winning the investing game and beating the market returns. The longer-run evens out a large part of the luck as plenty can and plenty does go right and wrong in the long run. You have to be skilled enough to make use of the luck factor when it is playing out. You have to be skilled enough to bag the opportunities and curtail risk most of the time.

When it comes to entrusting someone with your hard-earned money, given that part luck and skill play in long-run investing, you would be better off choosing a manager who has outperformed the index by say 5% every year over a 10-year period (on CAGR) than a manager who has outperformed the market by 25% over the last 1 year. That is akin to putting higher weight on skill than luck.

At Girik, we have religiously built and strive to hone our investing skillset. Our performance has been a result of the consistent efforts that the team puts in building and improving our investing systems, research capabilities, knowledge base and processes. Of course, we get lucky from time to time and we hope to keep on getting our fair share of luck going forward.

On that note, we leave you with an apt quote from the famous American rapper Vinnie Paz - *"Luck is when skill meets opportunity"*