GIRIK™ CAPITAL

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.

The headline indices marched higher in the month, before giving away some of the gains at the end of the month, in tandem with the global markets. Midcaps and small-caps, however, saw a tepid performance during the month. The industry leadership continued to be dominated by IT services, online classifieds, healthcare diagnostics, and agrochemicals. While global and domestic pharma took a breather, pharmaceutical APIs continue to lead. Cement, steel, and private banks were some new entrants in the leadership charts. The newer industry groups were supported by better than expected quarterly earnings performance and positive commentaries from corporates on the post-lockdown economic rebound.

The importance of investing in leading sectors has been repeatedly emphasized by many and as investors spend some time in the market, they tend to get it right. However, not all the leading sectors continue to lead for the entire length of the bull market. Some fall by the wayside in the mid of the bull run while others continue to scale new highs till the end of the run. There is no set way for investors to know which sectors will continue to lead and which will falter midway. Similarly, there is no way for investors to figure out if a sector is going through temporary consolidation or is setting itself up for a "U" turn. The confirmed answers to these questions are only known in the hindsight.

The quandary of not knowing what leaders would do, leads to a much bigger problem for investors - when to sell and take worthwhile profits and when to stay put? For most investors buying may be the simplest of the decisions, but they develop cold feet when it comes to selling - especially selling profitable positions. Selling to limit losses can still be developed and practiced by smart and professional investors but selling to take profits has its own psychological barricades even for the smartest. Investors don't want to foolishly sell too soon nor do they want to see their stocks reversing direction permanently. Many biased investors try to look for more information to further support their thesis and the love for their profitable stock blinds them to all the contradictory information. On the other hand, some investors sell a little too soon fearing that the price will come crashing down, resulting in missed upside.

So, what's the thumb rule here? When to sell and when to hold a winning stock? There is no objective rule to decide when to sell. Investors learn from their mistakes and design their own sell rules as they mature in the investing world. It's a long drawn process of trial and error until one gets to the winning formula.

In CANSLIM too, the sell rules have been designed after a significant dose of observation and deliberation. As the system integrates technical and fundamental aspects of investing, it gets easier not to get carried away and to look at each situation objectively. Our sell rules take into account the technical exuberance as well as the potential slowdown in earnings. We don't hesitate to take profits when the stock runs ahead of its earnings potential and we also stay put when there is a long tail of earnings growth. In extremely euphoric markets it becomes even more important for us to take periodic profits as a measure of risk management as well as return enhancement. To maintain the robustness of the process, we fine-tune our systems regularly to take the worthwhile profits, ride our winners and limit drawdowns during the down moves.

As William O' Neil puts it, "The objective is to make and take significant gains and not get excited, optimistic, greedy, or emotionally carried away as your stock's advance gets stronger. Keep in mind the old saying: "Bulls make money and bears make money, but pigs get slaughtered."