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 markets continued to be in the corrective mode but ended only marginally down for the month, helped by a smart recovery from lows towards the end of the month. The drastic onset of the second COVID wave and the potential economic fallout of regional lockdowns kept the rally in check.

Just when the citizens and the governments thought we were past the infectious virus, it has come back with a vengeance in the second wave. The country is going through a tough time with its overwhelmed health infrastructure and scarcity of life-saving medical resources. We pray for the well-being of our fellow citizens. Our heart goes out to people who have lost their loved ones to the virus. Humanity has overcome and emerged stronger out of humongous obstacles in the past, and no matter how gloomy it looks, we will pass this crisis too.

Despite somber markets, a few industries stood out due to their stupendous performance. Metals continued to shine, strengthening their positions to reach the top of our leadership charts. IT took a little breather while sugar made its way to the leading industries list. Chemicals continued to remain a top industry and select APIs also emerged stronger.

Bull markets always start with disbelief and end with extreme conviction. This leads to investors becoming defensive at the beginning of the bull run and quite aggressive at the end of the run, which is quite illogical. However, it starts making sense when we consider that at the start of the bull market, the news is all bad and macros aren't good, while at the peak, all of these factors look hunky-dory. Naturally, investors become risk-averse on bad news and risk-takers on good news and act accordingly. Even experienced investors fall for this time and again, leading to several costly mistakes. To correct this conundrum, investors need to be mindful of their behaviors at different stages of the bull market. If that isn't possible, investors should build robust systems to help them decide how aggressively or defensively they should approach the market.

As growth investors, we realize that we stand to lose significantly if we decide to be aggressive near peaks. Therefore, we have to be careful, especially with the new money. Blindly buying the bull market winners at peaks can ruin the portfolio returns when growth stories run out of steam. To be fair, we can't predict market excesses and we also don't have a crystal ball to pinpoint the peaks. We, therefore, try to be systematic in our approach while putting the new money to work. We try not to be buyers at any price and instead follow a system to invest the new money gradually. With years of research and observation, we know that all growth stocks move in cycles. The cycle typically includes a lull in the beginning, an accelerated advance in the middle, and a decline or a long stagnation at the end. To make the best use of capital, we are always interested in the mid of the cycle and position ourselves accordingly. As the advance matures, we become increasingly cautious and follow a step-by-step approach to determine if our portfolio stocks are buyable. This way we mostly avoid buying big at peaks and even when we buy in later stages, we manage our risks well by tweaking our position sizes. While we can't be right all the time, we try not to be horribly wrong by following the risk management systems religiously.