

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.

Telecom, Pharma, Agrichem, and Chemicals industry groups continued to lead, while other rural economy dependent sectors like Tractors and 2-wheelers also stayed put. IT sector took a breather as the sector leaders whirled around their all-time highs. The Online Classifieds sector stood strong with its outstanding run, led by robust quarterly results and an accelerated market shift towards online platforms. Securities Depository was the new entrant on the leaders list, riding high on robust equity market volumes and favorable, business accretive guidelines imposed by SEBI.

The only word on the street these days is “exuberance”. The doomsayers and critics are questioning every market move because the markets are not in sync with the underlying economic conditions. However, history suggests that these people have been wrong more often than they have been right. All the doom today is built on the premise that the Pandemic should have a long-term impact on the economy and the markets are wrong in shrugging those worries. The one thing that economists and market commentators fail to see time and again is the power of collective human psychology.

After the 9/11 attacks in the U.S., the economy was in the middle of a recession. Economists forecasted doom on the premise that an already recessionary economy will slip further because of the eroded confidence of the public. It also seemed certain as all the indicators pointed further pain. However, by November the same year, the economy surprisingly came out of recession. What happened? The U.S. people came out in large numbers and started doing business as usual despite all the panic. The optimism was also pushed, to some extent, by the George W Bush’s (the then U.S. President) call to the citizens to move past their fear and do business around the country.

The power of collective human psychology has the potential to turn things around at an unimaginable pace. Nobody can forecast such turnarounds with a straight-line view and the recency bias. Is the market looking at such a turnaround? We don’t know yet. However, as investors, we remain optimistic. We see the current rally as a healthy mix of performance, hope, and speculation. The worst clearly is behind us, people are learning to live with the virus and the economy is coming back from the lows marked in the June quarter. Surely, there is still a long way to go, not only for the economy and earnings but also for the markets.

Sir John Templeton famously said, “Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria”. We are surely past pessimism and all we have right now among the market participants is skepticism. It will be interesting to see what comes next. For us, all of the noise doesn’t change anything. We continue to stand by the leaders which are displaying robust earnings growth and stability even in the time as tough as this one. In fact, the volatility has made the strong players - to put it in the words of the famous scholar, Nassim Taleb - more “antifragile”. As per Taleb, unlike fragile items, which break when put under stress, antifragile items actually benefit from volatility and shock. Therefore, antifragility has become one more aspect to look for while investing in equities these days. Companies that come out unscathed and strengthened from an unprecedented crisis like the current one certainly deserve “significant” investor attention. Our robust systems make it easier for us to back such antifragile companies early on. We keep our biases away and rigorously follow the systems - embracing uncertainty while following robust risk management. That helps us sail through all the skepticism with ease.