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 hit new highs in January but got caught in a minor correction towards the end of the month. The indices slipped 8.5% from the highs to the end the month near the lows. Global markets also witnessed a halt in upward momentum, which dragged the Indian markets lower. However, the indices staged a smart comeback on the budget day, led by positive announcements for the banking sector and a growth-oriented budget. Stellar December quarter earnings beating most investors' expectations added fuel to the market rally. The industry leadership saw a significant change in the month with construction and building materials topping the charts along with Autos. Consumer and contract manufacturers continued to be in the leading industries along with IT services. Metals continued to jump slots in the leadership charts.

Prior to the budget move, investors were increasingly jittery about markets moving in the bubble territory. Now with the budget announcements, the doubters are finally getting convinced that the rally is fundamentally backed. The investors who were too sophisticated to participate in a liquidity-driven rally are now jumping in and investing full throttle. However, the problem with stock market bubbles is when it is formed, only a few call it a bubble. The entire premise of a bubble is that it convinces and consumes everybody. Therefore, the worrisome element is actually when investors start throwing money without worrying about a bubble. We don't know when will we get there, but clearly, the number of doubters is reducing rapidly every passing day. That shouldn't sound too scary though, given we are just about a year into a bull market. It takes a lot of time for the bubbles to be formed and finally pop. However, that shouldn't make investors complacent. Successful investing is not only about picking good stocks. That's only less than half of the story. What separates men from boys in investing is the respect for risk. The ones who don't respect risk shine in one cycle and burn in the next cycle. The market is a pathetic sympathizer, which never looks back at arrogant and greedy investors.

Risk management isn't an alien concept even to buy and hold forever investors. For growth investors like us, it's even more sacred. As we invest in still-to-be-proven high-potential businesses, we have to be watchful for what comes next for us. Not all of what we buy turns into gold. Therefore, we pick our stocks wisely and size our positions thoughtfully, and never throw good money behind bad money. We also have rules to take losses whenever we find out that we are wrong or the markets tell us that we are wrong. Another important area that fails investors time and again is "nailing down worthwhile profits". We have also given intensive thought to build systems to sell our profitable picks.

Finally, we continue to learn from our mistakes and fine-tune all our systems. As William O'Neil puts it, "you must unlearn many things you thought you knew that ain't so, stop doing them, and start learning new and better rules and methods to use in the future." That's what we strive to do at all times.