

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.

July was a healthy month for the markets across the board. Small-and-mid-cap stocks performed alongside large-cap stocks, and the market saw a decent participation from newer industries.

Based on the current trends from the earnings seasons, several corporates have weathered the COVID-19 storm fairly well. Many companies have declared better than expected earnings, mainly backed by decent reductions in costs - both voluntary and involuntary. Some companies have topped it up with robust revenue growth as well, as many stronger players in essential sectors filled the business vacuum created by lockdowns and supply-chain disruptions, gaining volume as well as pricing growth.

The encouraging performance of a certain set of companies amid the challenging environment has brought new leaders to the forefront. Leaders in industries such as Pharmaceuticals, Telecom, Agri-related sectors, and Gold NBFCs continued to stay on the top, while IT, Packaging, and Online Classifieds joined afresh. The sheer number of industry leaders and the promising new stories that we are finding now, point towards the health of the current uptrend.

We have probably made it through one of the most unforecastable periods in modern stock market history. For investors, the uncertainty surrounding businesses at the height of the panic made things a lot more difficult. The dilemma of being invested in broken past leaders, investing in new promising stories, or being in cash kept haunting most investors every day.

In the investing world, there are three main sides - fundamental, technical, and HUMAN. While technicals and fundamentals are taken care of sooner or later, it’s the human side that always poses the problem for investors. Jesse Livermore, the great trader, once said, “the human side of every person is the greatest enemy of the average investor or speculator”. The human side is too focused on the news, which is always bad after the markets bottom out. The bad news deters investors from jumping in and buying the leaders of the fresh move, resulting in plenty of missed opportunities. Some such opportunities are compelling even after the run-up in prices, but investors grudgingly refuse to get aboard, waiting endlessly for another market correction. Moreover, the investors’ focus shifts from objectively finding opportunities to justifying their actions (or rather inactions) by questioning market moves and rebuking other factors that are beyond their control.

We approach investing differently in such situations. We have been able to find a number of fresh investable growth opportunities in these uncertain times because of our tremendous devotion to systems. The systems keep our human side in check and help us think a lot more objectively about money management. We shut the news and focus on our screeners, that continue to throw the best of the opportunities even in worst of the times.

The reason CANSLIM system continues to work cycle after cycle is that it’s based solely on the reality of how the stock market actually works rather than on our personal opinion or anyone else’s. Furthermore, human nature at work in the market simply doesn’t change. So, CANSLIM does not get outmoded as fads, fashions, and economic cycles come and go. It will beat big egos and personal opinions every time.