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 eked higher in the month at a slower pace, while the midcap and smallcap indices outperformed. A better than expected earnings season, reducing COVID pain and higher vaccinations supported the markets on their way higher. On the industry leadership front, midcap and smallcap IT continued to top the charts, along with sugar, textiles, chemicals, plastic pipes, and metals. BPO/ITeS was another sunrise sector that made its way to the leadership charts led by strong quarterly earnings and sector tailwinds.

In investing, what makes or breaks a portfolio is how one approaches the risk. Stock picking is just one part of the game, but not the most important part. The best of the stock pickers have faltered in bad times because they focused too much only on the returns and ignored the risk. The style of risk management varies from investor to investor. Some investors diversify too much while some stick to their circle of competence and buy safe companies. Others follow varying position sizing and loss limiting rules to safeguard the portfolio. While there is no style that we can call better than the other, as fund managers, we have to look at it from a different lens altogether. That's because of the regular inflows that we get at all market levels, especially when the markets have seen a decent run. This kind of situation calls for a comprehensive risk management system, which can limit drawdowns, while also not missing the upside.

We have developed a robust risk management system that helps us deal with the vagaries of the market and individual aspects of portfolio management. Each of the aspects of investing, beginning from screening right to the exit has been designed with the risk-first approach. The idea behind the system is to build as much failure as possible in the investing process. Once we have considered all that can go wrong, we eliminate the likelihood of permanent loss of capital. Therefore, irrespective of the market levels, we can continue to invest capital without worrying much about corrections and crashes. As Peter Lynch says, "Far more money has been lost by investors trying to anticipate corrections than lost in the corrections themselves." Our systems do the job of alerting us when the situation is taking a turn for the worse and we act proactively to safeguard the invested capital.

One major aspect of risk management is to avoid large losses. Large losses are quite difficult to recover and leave a sour experience that can make an investor quit altogether. As Charles Ellis, the author of "Winning the Loser's Game" puts it, "large losses are forever - in investing, in teenage driving, and in fidelity. If you avoid large losses with a strong defense, the winnings will have every opportunity to take care of themselves. And large losses are almost always caused by trying to get too much by taking too much risk." We keep a lid on losses by choosing our stocks carefully, sizing our positions optimally, and proactively eliminating losers before they can cause big dents in the portfolio. That is done while letting the winners run, do their job, and take care of the returns.