

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.

March was a month of consolidation for the market. After hitting all-time highs in February, the markets slipped over 7% from the high before recovering a bit towards the end of the month. Midcap and smallcap indices also gave in, to close in red for the month. Negative global cues and rising Coronavirus infections back home led to the market correction. The industry leadership was dominated by metals, IT, and consumer durables. Other sectors, namely, NBFCs, chemicals, and online classifieds also remained at the top, while fertilizers, which were the fresh entrants last month, slipped out of the leadership charts.

It’s safe to say that markets are taking some rest after the huge over 100% run-up from March 2020 lows. Such intermittent corrections in a bull market are both, healthy and interesting. Healthy because they eliminate the excesses of the previous run, and interesting because such corrections are followed by sector rotation when new industry leaders take over to lead the markets.

Therefore, it is during such corrections that one needs to be vigilant for the new emerging trends. The stocks that hit new highs when the markets are trending lower, or the ones that don’t fall in line with the markets, are the ones to watch out for. As William O’Neil says, “once a general market decline is definitely over, the first stocks that bounce back to new price highs are almost always your authentic leaders”. When fresh out of corrections, these authentic leaders end up becoming huge winners and dominate large parts of the portfolio gains. If one gets this right, many investing battles will be won right at the beginning.

We keep a tab on price actions of such stocks through our proprietary systems, which alert us on the names that are bucking the trend. We then keep our research ready to act on them at the most opportune time to never miss a true leader. Once we have our hands on such leaders, we ensure that we ride a large part of the trend to gain the most of the move.