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 crawled the wall of worries in the month to hit new highs, with broad-based participation from mid-and-small-caps. A good earning season, opening up of major global economies, and reducing numbers of new coronavirus cases back home helped the indices stay firm. On the leadership front, metals and chemicals continued to top the list. Midcap IT strengthened its lead while large-cap IT took a little breather. Textile stocks emerged strongly out of the lull, making it to the leadership charts, backed by supportive demand-supply dynamics globally. Sugar also maintained its leadership position.

In a volatile asset class like equities, anxiety is a dominant emotion for investors. It's far too common for investors to get subsumed by historical returns of funds/managers and get burnt, assuming that the historical returns will continue. Unfortunately, it takes a long-time before this mistake is identified and corrected. Most fund managers have a subjective investing style that they stick to at all times. These styles have periods of outperformance and underperformance. Generally, investors get awed by the performance in good periods and suffer the underperformance that ensues. In fact, the periods of outperformance, at times, fuel the mental biases that produce the underperformance. Most importantly, fund managers themselves get overconfident about their ability to outperform in bull markets. Nobody factors in the impact of the rising tide. As Charlie Munger once famously said, "Bull markets go to people's heads. If you're a duck on a pond, and it's rising due to a downpour, you start going up in the world. But you think it's you, not the pond."

For investors, reliance on one person/organization for long-term wealth creation can be problematic. They don't need people with strong views to deal with their life savings. What they instead need is a wealth creation system that adapts itself based on changing market conditions. A system that maximizes return and minimizes risk proactively. Even if you are not the smartest investor, a good investing system can deliver outstanding results when followed diligently. As Warren Buffett puts it, "an idiot with a plan can beat a genius without a plan."

An end-to-end system must have the requisite components to - deliver new opportunities, suggest the right buy and exit points, and manage the risk at the stock and the portfolio level. The process should also have a built-in mechanism that allows investing money at different levels in the market without severe underperformance, which is a much-required tool for investment managers who get regular inflows to invest. Such systems take a lot of time and trial and error to build, but once they are built, the wealth creation happens almost on auto-pilot. Of course, it takes a tremendous amount of nurturing and supervision to keep the system working, but the rewards are worth every effort.

At Girik, we have spent a decade building and perfecting one such system. All the components of investing including screening, research, and money & risk management have well-laid processes that are followed to eliminate biases and pace up decision making. We don't try to be smart by forecasting stock prices. We instead focus on building systems using what has worked in the stock markets for ages. Once that is built, all we need is the discipline to follow the system. Quoting the legendary investor Warren Buffett again, "we don't have to be smarter than the rest; we have to be more disciplined than the rest."