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 saw a decent run during the month, hitting all-time highs, led by optimism on economic recovery, global market performance, and decent flows from foreign investors. The optimism spilled over to midcap and smallcap indices, which did equally well, surpassing their recent highs. The industry leadership continued to be dominated by IT services, pharmaceuticals API, online classifieds, cement, chemicals, and agrochemicals. Global pharma also made a comeback on the leadership charts.

After the smart recovery and successive new highs hit by the market, new investors are becoming increasingly jittery about the timing of their investments. Such a phenomenon is quite common after every run-up in the stock markets. No investor wants to be caught in a correction right after putting in fresh money. At the same time, investors also don't want to miss the opportunity if the market continues its run. Even when the markets correct and hit lows, investors don't queue up with their hands full of cash. They instead become even more risk-averse despite the promise of extraordinary returns that can follow if one invests in the crash. There is no easy answer to whether investors should invest at highs or wait for a correction. Nobody can anticipate the precise point at which the market will top and bottom, not even the best of the experts. Therefore, timing the market is nobody's game and is a futile exercise at best.

The great investor, Sir John Templeton once famously said, "The best time to invest is when you have the money". There is a ton of wisdom behind the simple quote. Investing in euphoric markets may result in short-term underperformance, but the long-term takes care of it. That doesn't mean market levels don't matter at all. Of course, market levels are important for the portfolio to do well, but, it's always better to focus on individual stocks that build the portfolio. When each company is scrutinized for its potential and its worthiness to be a part of the portfolio, the portfolio automatically becomes strong that can weather the test of the time. If the portfolio is full of stocks that can cause a permanent dent in the capital, then even the best of the markets can't save investors.

In CANSLIM, an entire section is dedicated to how to navigate different cycles of markets. With years of experience using CANSLIM, we have learned about creating portfolios that don't give us sleepless nights. That isn't to say that our portfolios don't go down during the market crashes, rather we try to minimize the damage. Additionally, as most of the companies that we pick are leading companies that have significant earnings growth momentum behind them, they are quick to come back when markets recover. As a risk management practice, we always keep a close track of underperformers in our portfolios to get rid of them or minimize their exposure in the portfolio after giving them enough time to prove themselves.

After choosing stocks wisely, we don't buy the chosen stocks at any price. We instead follow a custom allocation approach, in which we wait for intermittent periods when the stock digests the demand from the previous up move. Most of the stocks go through such periods that can last from a few weeks to months. Sometimes these falls coincide with market corrections and that becomes the best time to align leading stocks in new portfolios.

Summing up, trying to time the market isn't a good strategy. One should instead put robust frameworks in place to deal with the market's ups and downs. At Girik, we have done exactly that by focusing on picking the right stocks, buying stocks at the right buy points, managing risk by careful position sizing, and taking losses when they are small and manageable. We try to better these systems every day to make our portfolio management system much more efficient.