

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.

November was the month of consolidation for the markets. The headline indices cooled off from the prolonged one-way move as did the midcap and smallcap indices. Such consolidations - for whatever reason they come - are healthy for the markets as they remove excesses and also offer newer opportunities. On the sectoral front, IT, logistics, and textiles continued to lead and remained at the top of the list. Chemicals completely fell off the list while real estate took a little breather. Breweries and distilleries made it to the top industries list during the month.

The markets change color and structure all the time. The areas to make returns keep on changing with every boom and bust. For example, when the COVID bust came and everyone was busy making the doomsday scenarios, some industries like IT and broking rapidly started adapting to the new normal. The immensely large-scale adaption was so quick that the COVID impacted drop would not even look like a blip on the long-term trajectory of the business. These industries in fact saw an accelerated growth led by COVID. Few people had the foresight to see this coming. Then came the supply chain issues that opened a plethora of opportunities in different industries, some of which posted huge losses and all-time high profits, all in the duration of 2-3 quarters.

Sitting in the tense March 2020, such scenarios would have been impossible to build. In the hindsight, such scenarios would look easy to understand and execute. But, returns are not made in the hindsight. As Warren Buffett puts it, “In the business world, the rearview mirror is always clearer than the windshield”. Therefore, you can only profit from the trend if you are at the right place at the right time with the right foresight. However, foreseeing such large-scale changes isn’t easy. Many times the pace and the quantum of change end up surprising even the industry and business insiders.

With such uncertainty, investing largely becomes a game of making decisions with insufficient data and insights, while protecting your downside and not choking the upside. To overcome this conundrum, you need to have a plan and system in place. No matter what stories come and go, the basic nuances of the market remain the same. Trends develop, advance, mature, and die with differing time horizons. Some last months, while some go on for decades. If you have a system that helps you identify the trends that are in the development phase, you can be ahead of many investors. This involves some tracking and data crunching, but offers a lot of clarity and cuts off clutter from investing.

At Girik, such systems form the foundation of our investing philosophy. Once we know the developing trends, we can investigate them thoroughly and take the leap of faith, while managing the risk. Some of these work and some of these don’t, which is always a part of the plan. All we have to ensure is that we don’t goof up with the ones that are working because the sizeable returns on these stories pay for the losers many times over, thus securing the worthwhile upside for the portfolio.