

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.

Let us start by wishing you and your family a very happy Diwali.

The headline indices scaled to new highs and gave back all the gains towards the end of the month. The broader market indices also followed suit and ended flat for the month, washing out decent gains that they logged during the month. Intensified selling by foreign institutional investors (FIIs) weighed down on the market. Sectorally, the IT sector continued to lead, joined by metals, real estate, and textiles. The logistics sector entered afresh in the leadership charts, while chemicals took a breather and fell off the top industries list.

The market hasn’t seen a meaningful correction after they started rallying from the COVID lows. For investors who thought that the COVID lows were not low enough, waited a long time to jump in, missing a host of opportunities that the bull market presented. Some are still waiting for the right time to jump in when prices would be attractive enough. The interesting thing about corrections is that they don’t come when investors are expecting them. When that is so, trying to time the market is foolhardy. Hence, the best thing to do is to stay invested all the time.

However, if you still want to time your investments, don’t time the entry in markets, but try to time your entry in individual stocks. How can that be done, you may ask. Individual stocks also go through their long-term boom and bust cycles that can be identified with some practice. The idea is to identify the boom, get in at the right time, and move out, protecting a good part of your gains. The boom in stocks becomes identifiable because it comes with a confluence of factors - both technical and fundamental. A typical example of such confluence would be a stock hitting all-time highs on great demand with great reported earnings and a dependable story with industry tailwind to keep the earnings momentum going. That’s a cocktail of multiple rerating and earnings growth. When these factors are backing the stock, it often finds its way up even after deep corrections. The best part is you don’t have to worry about the market levels to make such investments. Instead, you just have to keep an eye on the cycle of the stock to ride the meat of the move. This strategy, like any other, wouldn’t be 100% successful. You will have your shares of wrongs. The idea is to accept the wrongs and the accompanying losses early without hoping and wishing and ride the winners for large gains. If done right, this strategy can deliver a fortune even if the success rate in individual stock picking is 50%.

We do the same at Girik. This is why we like stocks that are hitting 52-week highs, especially in corrective and bear markets, and we love to dig deeper into newer stories and high earnings growth. We understand the opportunity cost of money and do not let the money rot lying in a stock whose time has not come. The rest flows down to sensible portfolio construction and risk management that’s done through a well-defined process.