

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 market continued the upwards march in September, hitting all-time highs, with broad-based participation. Defying all the expectations of a correction, midcap and smallcap indices not only recouped the losses from the previous month but also made new highs. On the sectoral front, IT continued to lead along with textiles and real estate. Chemicals moved up the leadership charts while metals took a breather.

As investors, we often get hummed by the stories of wealth creators of the past. Not only do these stories make us wonder about the power of equity investing, but also they push us to the hunt for new wealth creators that can become the next HDFC Bank, Infosys or Asian Paints. What's never the part of those stories is that only a minuscule fraction of the investing universe creates the kind of wealth that these mega baggers create. The balance majority of the investing universe sees boom and bust cycles that take investors down with them.

For every 5 highly successful stories, there will be 95 unsuccessful stories that aren't talked about. Mathematically, the probability of getting on that mega-bagger is only 5%, or maybe even less. Despite that, investors get pretty obsessed with their investments, which they think will be the next multi-bagger. The truth about multi-baggers is that they rarely can be foreseen as multi-baggers. It's only in hindsight that those companies can be analysed and reasoned for being multi-baggers.

Though there are some attributes that separate great businesses from mediocre ones, those attributes also don't save the business forever. That's because high returns in business attract competition and disruption, which ultimately leads to moderation in returns. It's easier, therefore, when you don't get into any stock with an expectation to get a multi-bagger. One must look for high-quality companies, preferably leaders, which can preserve their turf for long enough periods to handsomely compound investors' capital. An investor would do well even when he pays up for such businesses. Once in, investors must not buy and forget. They must track the business keep themselves abreast of how the story is unfolding.

As investors, we keep an open mind and don't expect too much from our investments. Of course, we do our homework well and track the businesses diligently, but, not fall in love with them just because we expected a multi-bagger. That way, multi-baggers happen to us and we don't have to actively hunt for them. It's all an inherent part of our investment process. The beauty is, we just have to diligently follow a process to be on our next multi-bagger.