Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. XXIX

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Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 31.6%. This compares favorably with our benchmark Nifty that returned 19.6% over the same period and multi-cap MFs that generated 21.6% return. Our standard deviation and CAPM beta continue to be well below that of the benchmark and our Sharpe ratio is well above, as detailed in the fact sheet.

Our monthly factsheet can be downloaded here.

Market commentary

The most unloved rally in the history of markets continues to grind higher. This rally is supported by positive flows from international and domestic investors. At the same time, the skepticism about the staying power of markets at these levels is also at an all-time high. There is a plethora of reasons that are being given by analysts for an imminent market correction:

1. High valuation compared to historical levels.
2. Excess liquidity in global markets supported by central banks.
3. Impending hyper-inflation.
4. Big correction in Chinese stocks that will trigger a 'Lehman-like' global crisis.
5. Excessive speculation by 'first-time' noob investors dealing in cryptos and NFTs.
6. Risk of the Third wave.
7. Deterioration in macro-economic situation, especially employment.

All these reasons are premised on historical events. While we have no issues with looking at history to draw inspiration and lessons, we believe that relying solely on the past to forecast the future is an expensive folly. Forecasting market levels and corrections is a Mug's game. While it makes for an interesting conversation, taking investment decisions based on such conversation can seriously injure portfolios. Successful long-term investors understand that returns are made from the value that is created in the future and not from the events of the past.

Investing in stocks is at best a way to manage long-term savings. Therefore, all one needs to do is to build a portfolio of good companies and stay invested in the portfolio for as long as possible. Every time an investor exits the portfolio by engaging in a silly and futile exercise called 'profit-booking' he brings to halt the process of compounding. It is not for nothing that Einstein (supposedly) called compounding the eighth wonder of the world. But a very large number of investors deprive themselves of this wonder by exiting the markets by engaging in unnecessary activity and reducing their equity allocations to below what they should be always. As a hack said, "to win it, you have to be in it."

Consider the following developments that we believe will drive the markets over the next year:

1. Pace of employment generation is picking up. Large number of white and blue-collar jobs are getting created. IT services companies cannot hire fast enough. There is very high demand from new-age companies that traditional recruiters are not able to meet despite a steep increase in salaries.
2. Real Estate sales are finally picking up after a decade-long slumber. Banks are providing mortgages at all-time low rates. This will further drive employment and ancillary industries.
3. Revenues for the government continue to be robust and better than expected. Fiscal situation is almost hitting a purple patch after a long time.
4. Inflation continues to be well below RBI threshold of 6% which means one can expect the interest rates to stay at their all-time low levels.
5. All high frequency economic indicators are in positive territory. With an improvement in macro conditions if India can get a credit rating upgrade it will open liquidity tap even more.

There are always risks associated with investing. But the market risk reduces significantly with long holding periods. Events over last eighteen months have shown that investors who stay invested through market turmoil come out on top. More savvy ones use market downturns to further increase their allocation. This is the only way to create long-term wealth.

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