2019, Letter
MY FINANCIAL PLANNER
SCO-1, Chabhra Complex,
Mahesh Nagar, Ambala Cantt.
FOURTH ANNUAL LETTER TO INVESTORS

9 August 2019

Dear Investor,

Today MFP has completed its 4 years journey. Each one of you is special to me. Without your trust & support, this journey could not have been possible. In last year we have added 10 new clients but our asset under advisory jumped from 4.5 cr to 7 cr. which has strengthened the trust relationship that we have with our customers.

MFP Journey at glance

	2016	2017	2018	2019
No. of customers	40	65	90	100
Asset Under Advisory	50 Lakhs	2.5 Crore	4.5 Crore	7 Crore

Let me take you through this journey which I would divide into two parts:

The Journey last year

Part 1:
Sep 2018 to July 2019 **(high pessimism)**

- **What happened during the year?**
- **What did I do during the year?**

Part 2

- **NBFCs Crisis: *Critical takeaways for personal finance***
- **100x story of an investor**

Part 1:

What happened during the year?

"You make most of your money in a bear market, you just don't realise it at the time."
-Shelby Cullom Devis

Sep 2018 to July 2019 (high pessimism):

- 2018-19 turned out to be an eventful year for economy and stock markets. It has been extremely volatile and difficult for both equity & debt investors in the Indian markets. Bad events in last year shocked the investors. Level of pessimism for both type of investors went deeper, which started in Feb 2018(discussed in previous year letter).

  Crude oil rose to 85$/barrel.US Fed hiked interest rates 4 times in 2018. Tightening of interest rates in the US and other developed markets lead to decline in equities markets in emerging markets including India. As western investors get higher interest rates in home economy, they would be less willing to take risk outside. US and China fought each other with tariffs and counter-tariffs.

  Indian economy faced headwinds during the year. Due to default of IL&FS on interest payment, financial market came into tremendous pressure. Many mutual funds were caught holding large chunk of its paper in their debt schemes, termed as haircut in financial parlance. They were forced to take a write down. Subsequent to this, there was news of a mutual fund selling paper of DHFL at very high yield (meaning low price). This set rumours in debt/equity markets that there could be defaults/ liquidity crunch. Many NBFC stocks saw their stock price crashing. (Discussion on NBFC crisis in the next part of this letter)

  There has been a couple of other incidents which played out during the year like, resignation by the RBI Governor, Indo-Pak tensions, general election 2019, 1st budget of Modi 2.0 govt; impacting the behaviour of investors, lower corporate earnings, touching early teens. Private companies abstaining from expansion plans.

  However, crude prices have cooled as it came to the end of the year. US fed have reduced the interest rates in 2019. Inflation came down to very low levels. RBI reduced interest rates fourth time in the year.

- S&P BSE Sensex remained almost flat registering a slight fall of 0.11% during the year. Mid cap and small cap stocks got severe treatment with S&P BSE Midcap index declining by 15% and BSE Small cap index down by 23.73%.

  Since inception of MFP in the year 2015, S&P BSE Sensex has generated compounded return of 7.38%. In comparison, S&P BSE Smallcap and S&P BSE Midcap have generated 4.26% and 1.2% respectively.

Market Performance at a Glance				
Indices	**01-08-2018 to 31-07-2019**	**01-08-2017 to 31-07-2018**	**01 -08-2016 to 31-07-2017**	**09-08-2015 to 31-07-2016**
S&P BSE SENSEX	-0.11%	15.49%	16.16%	-.67%
S&P BSE MIDCAP	- 15%	3.6%	21.16%	9.77%
S&P BSE SMALL CAP	-23.73%	3.18%	30.71%	1.74%

- Though Sensex fallen less as compare to mid & small cap indices but if we drill down further we see, the picture for broader market is totally different.
- Following is performance data about the 2853 traded companies as on 12th July 2019:

Fall from 30 Month High	**No. of Stocks**	**No. of Stocks %**
0-10% down	105	3.7%
10-20% down	144	5%
20-50% down	761	26.7%
>50% down	1843	64.6%
Total	2853	100%

Source: Ace Equity

What did I do during the year?

"Losses can psychologically scare you which can prevent you from capitalizing on right opportunities."
- Bharat Shah

Last year was poor in investment returns front (existing investors returns from investment turned lower or negative) but was good for searching investment opportunities(Maximum number of companies were down by more than 50%). As Benjamin Graham mentioned in his book, The Intelligent Investor that *"The intelligent investor realizes that stocks become more risky, not less, as their prices rise—and less risky, not more, as their prices fall. The intelligent investor dreads a bull market, since it makes stocks more costly to buy. And conversely (so long as you keep enough cash on hand to meet your spending needs), you should welcome a bear market, since it puts stocks back on sale."*

The end of the bull market is not the bad news. The decline in stock prices is rather good, now is the safer-and saner-time to build your wealth. Hence, I suggested short term debt funds last year, even for long term needs because suitable opportunities were not there.

At the end of Feb 2019 onwards, I started switching funds, which was for your long term goals but were parked in liquid/short term debt funds during 2017-18 to multi cap, mid cap & small cap equity funds. I am not having any capacity in predicting exact bottoms & picks of the market but fair sense about pessimism, optimism & margin of safety. I know in short term I may get wrong but if I stick to my process, then, in the longer run, this will handsomely rewarded.

"We are willing to look foolish as long as we don't feel we have acted foolishly."
- Warren Buffett

****

Part 2:

NBFCs Crisis: *Critical Takeaways for Personal Finance*

"One who fails to plan, plans to fail." – Benjamin Franklin

Before understanding what happened in Non Banking Financial Companies (NBFCs) crisis we need to understand the basis of a company balance sheet in details:
What is a balance sheet?
A balance sheet is a financial statement that lists an organisation's assets and liabilities.

DUMMY BALANCE SHEET OF ABC LTD.
AS AT 31ST MARCH, 2019

Liabilities (sources)	Amount	Assets (Uses)	Amount
Long Term Sources: - Owner Capital/Equity - Reserve & Surplus - Long term loans		**Long Term Uses/Fixed Assets:** - Purchase of fixed assets like land & building, machinery, furniture & office equipments - Investment in other securities	
Short Term Sources/Current Liabilities: - Creditors - Short term loans like bank overdraft		**Short Term Uses/Current assets:** - Debtors - Inventory - Cash & Cash Equivalent	
Total		**Total**	

Liabilities: Liabilities constitute what the organisation owes, that is, what it has borrowed and what are its shareholders' funds.
Money is the basic need of a business and whenever the business needs money it borrows, in the first place the borrowing happens from the owners of the business which is known as capital. Secondly, it borrows from the lenders for long term & short term in the form of debenture/bonds & commercial papers respectively. Thirdly, borrowing can also be in the form of goods instead of money. It is usually a credit extended by the supplier marked as the term 'creditors' in the books of account.

Assets: Assets, on the other hand, represent what a business owns and all it has purchased with the money that is borrowed. The Company invests long term money in fixed assets like land, building, machinery, and equipment & short term money in current assets like cash, account receivable and inventories. It is very important to know that fixed assets are not frequently converted into cash during the life of the business whereas current assets are converted into cash during the operating cycle of the business.

Business needs to invest their money in such a way that its assets will generate an inflow of funds before liabilities demand an outflow. But in the worst-case scenario wherein the situation gets reverse we need to check the liquidity & solvency position of the firm.

In order to determine whether or not the company is "liquid"&" solvent", we need to study the financial structure of a company, Simply, it is the way in which the assets (fixed & current) are financed by the long term funds and short term funds.

The enterprise is liquid if it can meet its current liabilities out of current assets. It is solvent if assets are greater than outsider liabilities (Total liabilities minus owner's capital).

On the basis of liquidity & solvency, a **balance sheet can be categorized into three types:**

Type A:

Balance sheet –A(Ideal case, but very rare)

Liabilities (sources)	Amount	Assets (Uses)	Amount
Long term sources	**60**	Long term assets	**60**
Short term sources	**40**	Short term assets	**40**
Total	100	Total	100

A balance sheet is type A

when the long term sources and the long term uses match

when the short term sources and short term uses also match.

Though it seems an ideal balance sheet, because long term assets are acquired from long term sources and short term assets from short term sources, when you review short term assets you find it includes cash, debtors, and inventory. At the time of trouble, business may pay its creditors from debtors by efficient management of timings through bank overdrafts. But it will face serious problems to repay its creditors from inventory. In case emergency inventory is the least liquid assets & cannot be converted at the right pricing. Consequently, the company may face liquidity problem & to remain solvent it may need to sell long term assets to repay short term liabilities. When an organisation is forced to sell its long term assets in order to meet its short term liabilities, it represents the beginning of the end of that organisation.

Type B:

Balance sheet –B(Risky case)

Liabilities (sources)	Amount	Assets (Uses)	Amount
Long term sources	**50**	Long term assets	**60**
Short term sources	**50**	Short term assets	**40**
Total	100	Total	100

A balance sheet is type B

when the long term sources are less than the long term uses

when the short term sources are more than the short term uses

This indicates that the long term assets are financed from long term sources to an extent & partly from short term sources and this becomes a case of asset-liability mismatch. Company is one which we need to avoid at any cost because it is guilty of financing its long term assets from short term sources. At the time of emergency, company needs to sell its long term assets for repayment of short term loans. Maximum business failures fall into this category. And exactly the same thing happened with NBFCs like ILFS & DHFL last year, which we discuss below.

Type C:

Balance sheet –C (Great!)

Liabilities (sources)	Amount	Assets (Uses)	Amount
Long term sources	**70**	Long term assets	**60**
Short term sources	**30**	Short term assets	**40**
Total	100	Total	100

A balance sheet is type C

when the long term sources are more than the long term uses

when the short term sources are less than the short term uses

This indicates that all long term assets are acquired from long term sources & surplus funds from long term sources are allocated to short term assets.

Type C is the most liquid & solvent one. Because company has surplus assets to repay its short term liabilities.

Anil Lamba, in "Romancing the Balance Sheet", says that a healthy Organisation is one which always follows below rules:

- Should use long term funds for long term purposes and short term funds for short-term purposes.
- May use, or rather should use, some long term funds for short-term purposes.
- But should NEVER use short-term funds for long term purposes.

NBFC Crisis:

"Bankers are people who lend you their umbrella in good weather, but who want to have it back as soon as it starts raining" - Mark Twain

NBFCs are financial institutions also known as India's shadow banking sector, a big source of credit to the country's small and medium enterprises, realtors, homebuyers and consumers. Unlike the formal banking sector, they cannot accept deposits from the public; they borrow money from banks or sell commercial papers to mutual funds to raise money. Gold loans, consumer durable loans, two-wheeler loans, vehicle finance and loan against property are the segments where NBFCs have a very strong presence across the country.

Asset Liability Mismatch?

"Companies with large debts often assume that these obligations can be refinanced as they mature."
-Warren Buffett

From the above balance sheet illustrations, we understood that for a sound company needs to have higher long term sources than long term assets & higher short term assets than short term liabilities.
But when you check the NBFC business model, you will find that they borrow money from short term sources like commercial paper for lending long term projects like house loans, real estate project financing & commercial vehicle loans. For example, an NBFC raises money by selling 9-month debt papers and on-lends this as a house loan with tenure of 15 years. This leads to a situation where the NBFC has to roll over (or renew) the 9-month debt paper or raise fresh loans to repay the debt paper. In good times, this happens as a matter of course. But when times are tough, this cycle is broken.
This is the scenario which has played out for many NBFCs including IL&FS, DHFL and is called an asset-liability mismatch.

IL&FS Crisis:

Let's look at the balance sheet of IL&FS in the above-stated format:

ILFS: Infrastructure Leasing & Financial Services Limited (IL&FS) is an Indian infrastructure development and finance company. It operates through more than 302 entities including IL & FS Investment managers, IL & FS financial services and IL & FS Transportation Networks India Limited.

CONSOLIDATED BALANCE SHEET OF INFRASTRUCTURE LEASING & FINANCIAL SERVICES LIMITED as on 31st March 2018

Liabilities (sources)	Amount (in crs)	% age of liability	Assets (Uses)	Amount (in crs)	% age of assets
Long term sources	78725	68	Long term Assets	82556	71
Short term sources	37089	32	Short term Assets	33258	29
	115815	100		115815	100

Source: IL&FS 2018 Annual Report

As on 31st March 2018, it's long term assets (71%) are financed from long term sources (68%) to an extent and remaining from short term sources (3%). It seems equal to the Type B balance sheet which was guilty of financing long term assets from short term sources.
When you check the maturity profile of assets & liabilities of the firm in the following table, you will find a serious gap (negative red values in the last column). Henceforth, in September 2018, a group company defaulted in payment obligation of bank loans, term & short term deposits and failed to meet the commercial paper redemption obligation due on September 14. On September 15, it defaulted on inter-corporate deposits & later it's credit rating downgraded by credit rating agency ICRA. At the time of default, IL&FS total outstanding debt was Rs 91,000 cr.

Maturity Pattern of Certain Items of Assets and Liabilities as at March 31, 2018									
Particulars	**1 day to 30/31 days**	**Over 1 month to 2 months**	**Over 2 months to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 1 year**	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years**	**Total**
Liabilities (in cr)									
Borrowings from banks	40.0	-	82.5	275.0	554.7	1,108.3	228.3	-	2,288.8
Market Borrowings	822.3	499.5	280.5	1,495.3	1,706.7	3,250.0	2,367.3	3,225.1	13,646.6
Total Liabilities	862.3	499.5	363.0	1,770.3	2,261.3	4,358.3	2,595.7	3,225.1	15,935.4
Assets (in cr)									
Loans & Advances	2,625.9	861.3	198.9	103.7	148.0	1,534.5	154.1	598.5	6,224.9
Investments	1,574.0	-	68.4	42.9	296.8	3.6	1,673.2	10,381.0	14,039.9
Total Assets	4,199.9	861.3	267.3	146.6	444.8	1,538.1	1,827.3	10,979.4	20,264.7
GAP (Assets -Liabilities)	3,337.6	361.8	-95.7	-1,623.7	-1,816.5	-2,820.3	-768.4	7,754.4	4,329.3

Source: IL&FS 2018 Annual Report

DHFL Crisis:

Same is the case with DHFL. Now let's look at the balance sheet of DHFL

Dewan Housing Finance Corporation's main business is of providing loans to Retail customers for purchase or construction of residential property & loans against property.

CONSOLIDATED BALANCE SHEET OF DEWAN HOUSING FINANCE CORPORATION LTD. as on 31st March 2018					
Liabilities (sources)	Amount (in crs)	% age of liability	Assets (Uses)	Amount (in crs)	% age of assets
Long term sources	80374	75	Long term Assets	89489	83
Short term sources	27254	25	Short term Assets	18138	17
	107627	100		107627	100

Source: DHFL 2018 Annual Report

As on 31st March 2018, its long term assets (83%) are financed from long term sources (75%) to an extent and remaining from short term sources (8%). So this is also an example of Type B Balance Sheet where chances of problem creeping are somewhat on higher side.

When you check the maturity profile of assets & liabilities of the firm in the following table, you will find a serious gap (negative red values in the last column). DHFL's problem started after IL&FS default on September 2018, When DSP mutual fund had to sell DHFL paper at a steep discount. When the news published it became visible to everyone that the company is guilty of financing its long term assets from short term sources. Subsequently, the stock dropped by more than 50% in the day itself. To combat the situation DHFL sold its insurance & mutual fund business to pay the lenders. But the situation got even worse. Finally, in June

2019 DHFL defaulted in all its debt payments. In quarter 1 2019-20 the company has reported a loss of more than its value as an entity i.e 2223 cr.

Assets Liability Management (Maturity pattern of certain items of Assets Liabilities)											
Particulars	**Upto 30/31 days (one month)**	**Over 1 month & up to 2 month**	**Over 2 month & up to 3 month**	**Over 3 month & up to 6 month**	**Over 6 month & up to 12 month**	**Over 1 Year & up to 3 Years**	**Over 3 Year & up to 5 Years**	**Over 5 Year & up to 7 Years**	**Over 7 Year & up to 10 Years**	**Over 10 Years**	**Total (in cr)**
Liabilities (in cr)											
Deposits	107	299	661	1,377	2,238	4,720	742	57	134	4	10,339
Borrowings from Bank	2,499	363	792	1,545	3,106	14,030	10,795	5,475	2,989	455	42,049
Market Borrowing	197	4,142	2,054	1,254	1,378	11,083	3,156	7,011	5,905	1,183	37,362
Foreign Currency Liabilities	-	-	-	148	148	1,314	1,355	-		-	2,965
Total Liabilities	2,803	4,804	3,507	4,325	6,871	31,146	16,048	12,543	9,027	1,641	92,715
Assets (in cr)											
Advance	1,701	459	462	1,410	2,918	12,373	14,095	10,656	9,651	38,209	91,932
Investments	6,879	-	-	-	173	-	-	-	665	359	8,077
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-
Total Assets	8,580	459	462	1,410	3,091	12,373	14,095	10,656	10,316	38,568	1,00,009
GAP (Assets -Liabilities)	5,776.9	-4,345.7	-3,044.4	-2,914.7	-3,779.7	-18,773.2	-1,953.6	-1,887.5	1,288.6	36,926.6	7,293.4

Source: DHFL 2018 Annual Report

Post ILFS default, there were fears that this would turn out to be a contagion. Banks, mutual funds and investors were afraid that more such entities would default. As this fear took hold, many institutions refused to give money to NBFCs. The cost of funds rose for NBFCs & shares of NBFCs dropped drastically.

NBFC	Pre crisis (31-08-2018)	Post crisis (03-08-2019)	% fall
DHFL	664.58	46.65	-93%
Piramal Enterprises	3122.43	1748	-44%
Edelweiss	278.78	149.7	-46%
India Bulls Housing	1275.74	489.64	-62%
Shriram Transport	1344.16	978.45	-27%
Shriram City Union	2010.06	1412	-30%
PNB Housing	1388.48	714.15	-49%
Muthoot Finance	409.55	621.3	52%
Manappuram Finance	100.52	113	12%
Gruh Finance	335.4	244.7	-27%
Bajaj Finance	2930.44	3238	10%

Some well-managed balance sheet company merged stronger. This is not the first time the NBFC crisis occurred. The same problem happened in 2008, 2013, at the time of demonetization.

Personal Finance; Co-correlation with NBFCs Crisis

"The surest way to ruin a man who does not know how to handle money is to give him some."
- George Bernard Shaw

If you are thinking why am I discussing all this with you & how is this important to you?
Below is the dummy income statement & balance sheet of Mr. Mohan. Income statement consists his income or inflow of money from all sources like salary, rent from house property, gain on shares, mutual fund or real estate, income from business & profession, income from interest on deposits.
Expenses consist of his outflow of money on various heads like taxes, household expenses, utility expenses, loan EMIs, Insurance premium & other expenses.
After deducting total expenses from income, whatever left is your saving. Now you can invest this in various avenues like recurring deposit, debt mutual fund, equity mutual fund & fixed deposits.

DUMMY INCOME STATEMENT OF MR. MOHAN
FOR THE YEAR ENDED 31st MARCH, 2019

Particular	**Amount**
1. Income Sources: A) Income from salary B) Income from house property C) Income from capital gain D) Income from business & profession E) Income from other sources Gross Total Income (A+B+C+D+E)	
2. Expenses: A) Tax B) Household expenses C) Utility expenses D) Loan EMIs E) Insurance Premiums F) Other expenses Total Expenses(A+B+C+D)	

Savings(Income-Expenses) - SIP in liquid mutual fund - SIP in ultra short bond fund - SIP in Equity mutual fund - Investment in PPF/EPF/NPS - Investment in RD - Balance in saving accounts	

Balance Sheet:
A balance sheet represents that your assets & your liabilities on a particular date.

"Rich people acquire assets. The poor and middle class acquire liabilities that they think are assets."
- Robert Kiyosaki

Liabilities: Liabilities constitute what you owe, that is, what you have borrowed.
Liabilities can be classified into two distinct categories:
Long term liabilities: Long term liabilities are which you have to repay after a year or so, it includes long term borrowing like, home loan, car loan, etc.
Short term liabilities: Short term liabilities are those you have to repay within a year like credit card bills, income tax.

Assets: Assets, on the other hand, represent what you own, be it from your savings or from your borrowings.
Assets can be classified into three distinct categories:

- Fixed Assets: Fixed assets include things like houses, cars, furniture.
- Investments: Investments include stocks, equity mutual funds and real estate, long term bonds, long term debt funds, PPF.
- Current Assets: Current assets are those assets that can be converted into cash within a year. These include cash, saving accounts, liquid funds, and Ultra short bond funds.

All assets are recorded only on their present market value.

Net worth: Your net worth is the difference between what you own and what you owe.

Net worth = Assets – Long term liabilities – Short term liabilities

If you have a negative net worth, this means that you owe more than you own.
Two ways to increase your net worth are to increase your assets or decrease your liabilities. You can increase assets by increasing your cash or increasing the value of any asset you own. One note of caution: make sure you don't increase your liabilities along with your assets. For example, your assets will increase if you buy a house, but if you take out a mortgage on that house your liabilities will also increase. Increasing your net worth through an asset increase will only work if the increase in assets is greater than the increase in

liabilities. The same goes for trying to decrease liabilities. A decrease in what you owe has to be greater than a reduction in assets.

DUMMY BALANCE SHEET OF MR. MOHAN
AS AT 31ST MARCH, 2019

Liabilities (Sources)	Amount	Assets (Uses)	Amount
Long Term Sources: A) Net Worth(Total assets- Long term loans – Short term Loans) B) Long term loans - Outstanding Home Loan - Outstanding Vehicle Loan - Outstanding Consumer Loan		**Long Term Uses/Fixed Assets:** - Primary Residence (Home) - Furniture & Appliances - Vehicle - Investment in securities like PPF, equity mutual fund, fixed deposit, real estate, life insurance, gold & other investment	
Short Term Sources/Current Liabilities: - Outstanding Credit Card Loan - Tax Payable		**Short Term Uses/Current assets:** - Cash - Saving account/Liquid fund - Short term debt funds - Others receivables	
Total		**Total**	

Let's evaluate the personal finance balance sheets as per the "Three Type of Balance Sheets":

Type A:

Balance sheet –A(Ideal case, but very rare)

Liabilities(Sources)	Amount	Assets(Uses)	Amount
Long term Sources - Net Worth 10 - Long term debt 70	80	Long term assets	80
Short term sources	20	Short term assets	20
Total	100	**Total**	100

A balance sheet is type A when you build your long term assets like house, car from long term mortgages & short term assets like an investment in short term debt funds from short term sources like a credit card. Though it seems an ideal balance sheet but it is probable to have liquidity issues. As the value of short term liabilities is fixed, therefore any delay in monetising short term assets is likely to create liquidity issues.

Type B:

Balance sheet –B (Risky case)

Liabilities(Sources)	Amount	Assets(Uses)	Amount
Long term Sources - Net Worth 20 - Long term debt 40	60	Long term assets	80
Short term sources	40	Short term assets	20
Total	100	**Total**	100

A balance sheet is type B when long term assets are financed from long term sources to an extent & partly from short term sources and this becomes a case of asset-liability mismatch similar to ILFS & DHFL. When your current liabilities exceed current assets results in liquidity issues and failing to handle the same, it turns out to be solvency issue. For example, you have long term assets like a house which is sources from house loan & a car, free from debt. You have short term liabilities like a credit card which are greater than your short term liquid assets. To timely repay your short term liabilities you will need to sell off your car.

Type C:

Balance sheet –C (Great!)

Liabilities(Sources)	Amount	Assets(Uses)	Amount
Long term Sources - Net Worth 70 - Long term debt 20	90	Long term assets	80
Short term sources	10	Short term assets	20
Total	100	**Total**	100

Type C balance sheet tells us that the long term assets are more than the long-term liabilities and subsequently the short-term assets are more than the short-term liabilities. This type of balance sheet is most liquid as well as solvent & can handle any emergency.

****

My role as an advisor is that my investor will have Type C Balance sheet before investing money in equity & will maintain Type C Balance sheet during their investment in equity. Equity is a long term asset that gives returns in cycles. At the time of bear market, when your portfolio is down, you have sufficient reserves to maintain your short term liabilities & able to handle the downside.

Below is the performance summary of Warren Buffett company: Berkshire Hathaway. Share price of his company fell more than 35%, 4 times in 53 years of history. Despite this underperformance, over the long period (1965-2018), company generated a compounded return of 20.5% p.a. If you were the investor in his company at those downtimes & had type c balance sheet you wouldn't have panicked. But if you had type A & B balance sheets you would not had much option except exiting.

"The market can stay Irrational longer than you can stay solvent."
- John Maynard Keynes

Berkshire Hathaway Share Price (in USD)

Short Term Price Movements

Period	High	Low	Percentage Decrease
March 1973-January 1975	93	38	(59.1%)
10/2/87-10/27/87	4,250	2,675	(37.1%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

Long Term Value Appreciation

Compounded Annual Gain – 1965-2018	**20.5%**
Overall Gain – 1964-2018	**2,472,627%**

Source: Warren Buffett's letters; 2017 & 2018

Benjamin Graham: In the short run, the market is a voting machine but in the long run, it is a weighing machine.

****

100x Story of an Investor

"To make money in stocks, you must have the vision to see them, the courage to buy them and the patience to hold them." - Thomas Phelps

Multibagger, a term coined by Peter Lynch, has become a buzzword. Investors hunt for such stocks that may give them 10x or 100x returns, but they are not prepared that such x journeys may be long and one might have to yearn for years for it.

I am giving details of a real case here. One of my investors, who invested Rs 1000 once in 1995, now is sitting on a value of Rs 1,03,995 in the year 2019. He had invested the amount in NFO of Reliance Growth Fund and during the long period of 24 years, will all ups and downs, with rapid swings in fund value, he remained a mute spectator and saw his portfolio value occasionally.

Reliance Capital Mutual Fund
1203 - 06, Arcadia, Nariman Point, Bombay - 400 021.

RELIANCE GROWTH FUND
UNIT CERTIFICATE

[redacted]

This is to certify that the person(s) named in this Certificate is/are the registered holder(s) of the within-mentioned Reliance Growth Fund units of the face value of Rupees Ten each bearing the distinctive number(s) herein specified, subject to the Offer Document, Rules and Regulations of the Reliance Growth Fund Scheme.

RELIANCE GROWTH FUND UNIT EACH OF	RUPEES 10/-
AMOUNT PAID PER RELIANCE GROWTH FUND UNIT	RUPEES 10/-

Registered Folio No. [redacted] Certificate No. [redacted]

Name(s) of Holder(s) [redacted]

Number of Units ONE HUNDRED ONLY (*****100)

Distinctive Numbers [redacted]

Given this 10th Day Of November 1995 at Delhi

RCMF

For Reliance Capital Mutual Fund

Authorised Signatory

D. CHATURVEDI
Chairman
Reliance Capital Trustee Co. Ltd

Note: No Transfer of any units comprised in this certificate will be registered unless accompanied by this Certificate.

RELIANCE MUTUAL FUND

Wealth Sets You Free

Reliance Nippon Life Asset Management Limited
(formerly Reliance Capital Asset Management Limited)

RELIANCE MUTUAL FUND

For the period Since Inception to 07 Aug 2019 | Statement Date : 07 Aug 2019 | (Not Transferable)

Account / Folio No : [redacted]

Your Personal Information

[redacted]

To Serve you better, we have highlighted your bank & contact details. If you find the same incorrect please call us on 1860 266 0111 (local call charges apply).

Mode of Holding : JOINTLY
Status : INDIVIDUAL

Off. : [redacted]
Mobile :
Email id :

Name on Card :
Jt.Holder1 : [redacted]
Jt.Holder2 :

Note: In case there is any change in your KYC information please update the same by using the prescribed 'KYC Change Request form' and submit the same at the Point of Service of any KYC Registration Agency.

	PAN / PEKRN	KYC	KYC Type	FATCA #
Primary	[redacted]	VERIFIED	KRA KYC	Updated
Joint Holder 1	Not Updated			
Joint Holder 2				
Guardian				

Folio Balance with MISSED CALL @ 9664001111

Give a missed call from your registered mobile number to 9664001111 and get your portfolio balance details sent via SMS.

It is mandatory for all investors (new and existing) to provide information related to FATCA (Foreign Account Tax Compliance Act). These details can be updated online at https://www.karvymfs.com/karvy/fatcahome.aspx or by submitting a duly filled and signed application form at any of our branch.

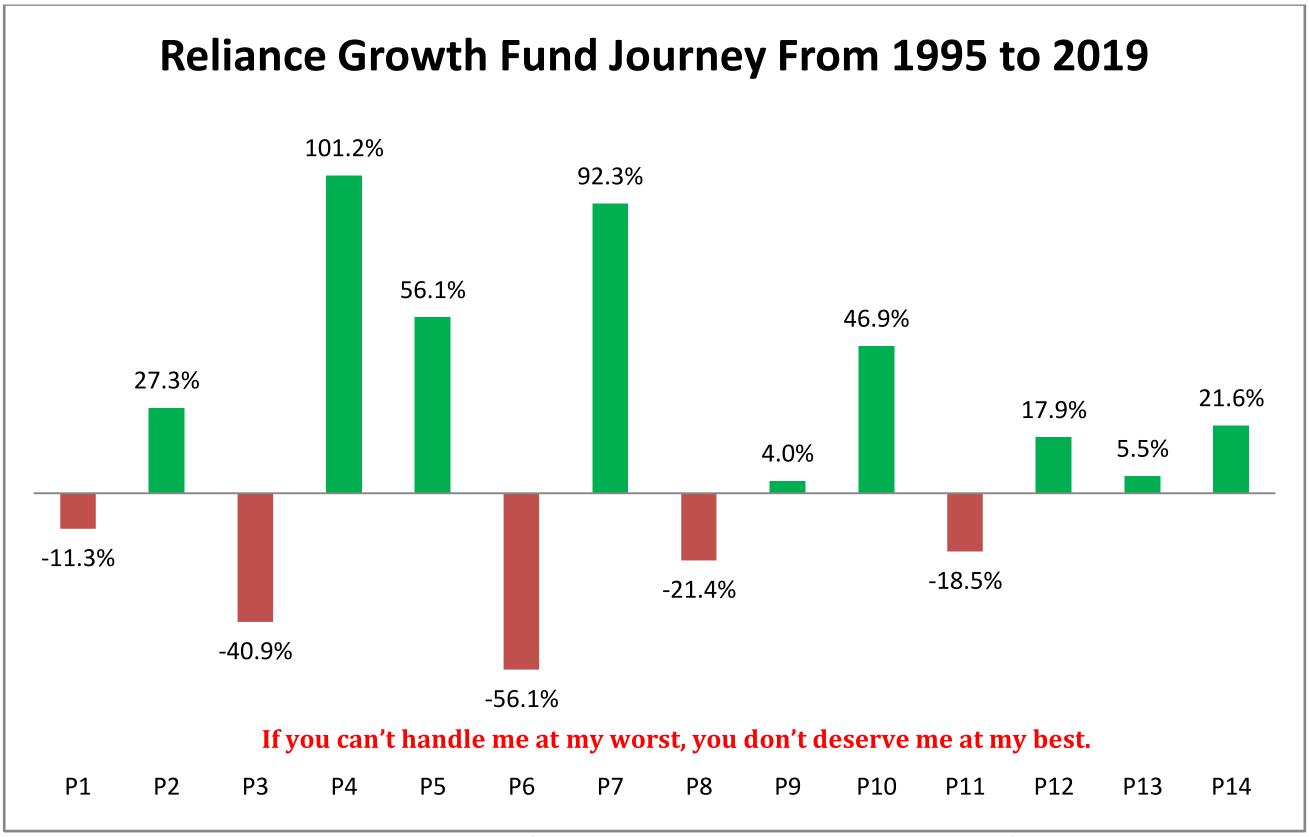
Summary of Investments

Scheme Details	Amount Invested (₹)	Dividend issuance Paid (₹)	Dividend issuance Re-invested (₹)	NAV (₹)	Balance Units	Current Value (₹)
RELIANCE GROWTH FUND - GROWTH PLAN GROWTH OPTION (GFGPG)	0.00	0.00	0.00	1,039.9517	100.000	103,995.17
Total:	0.00		0.00			103,995.17

*Dividend Paid includes total dividend payout / sweep out amount. Dividend Reinvested includes amount only for balance units

Before moving to his journey let us share how the fund has performed during this period. Since inception fund had generated a compounded return of 21.6% p.a. but these returns were not as smooth as it seems. The fund fell 40% post tech-crisis within a span of 1 year but generated an outstanding return in the next cycle, again it fell more than 56% in a span of 1 year & recovered.

"In order to capture the potentially higher returns that stocks can offer, you have to reconcile yourself to the certainty of horrifying short-term losses. If you can't do that, you shouldn't be in stocks—and shouldn't feel any shame about it, either."- Jason Zweig wrote in a post on WSJ



Disclaimer: Past performance may or may not be sustained in future.

P1: Mid 90s Crash: 08th Dec 95 – 4th Dec'96.
P2: Tech Bubble Peak: 4th Dec '96 – 11th Feb '00.
P3: Tech Crash and 9/11: 11th Feb '00 – 21st Sep '01.
P4: Recovery Post 9/11: 21st Sep '01 – 14th Jan '04.
P5: India Re-rating: 14th Jan '04- 8th Jan '08.
P6: Global Crisis Lows: 8th Jan'08- 9th Mar '09.
P7: Post Crisis Peak: 9th Mar '09 – 9th Nov '10.

P8: High inflation, slow growth: 9th Nov'10 – 30th Jan'12.
P9: Rebound in US and QE3 buoying global rally: 30th Jan '12 – 28th Jun '13.
P10: Post European Crisis: 28th Jun '13 – 27th Feb '15.
P11: Chinese economic Slowdown: 27th Feb '15 – 29th Feb '16.
P12: Global Liquidity and Domestic Reforms: 29th Feb '16 – 28th Sep '18.
P13: NBFC Crisis: 28th Sep '18-26-07-2019.
P14: Since Inception: 29th Sep 1994 till 26th July '19.

Who Are The Best Investors?

"Unsuccessful investors are dominated by emotion. Rather than responding coolly and rationally to market fluctuations, they respond emotionally with greed and fear. We all know people who act responsibly and deliberately most of the time but go berserk when investing money. It may take them many months, even years, of hard work and disciplined saving to accumulate the money but only a few minutes to invest it." **-** *Seth Klarman, Margin of Safety*

When I asked the 100x achiever how he was able to generate those outstanding returns. He answered, **"I invested & forgot".** Hearing it, I was able to recall Hero Honda's advertisement: Fill it, shut it and forget it.

Dead guys are the best investors?

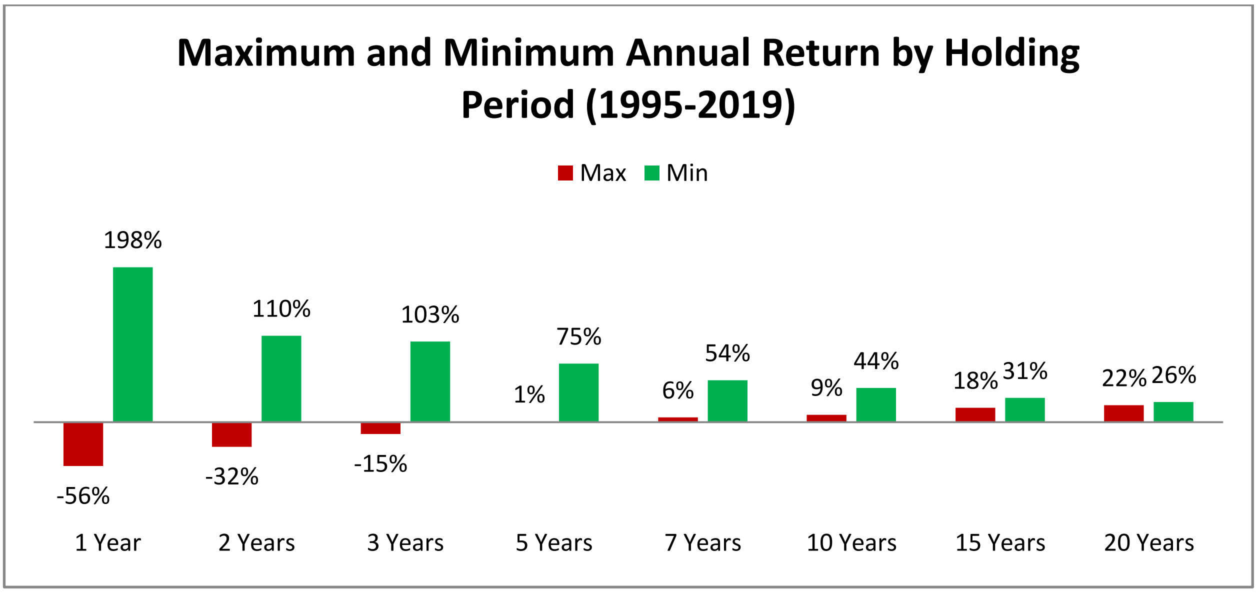
A similar study by Fidelity in 2003 claimed the company had looked over the accounts of thousands of individual investors, and they found a theme. The people who didn't touch their portfolios did the best. Fidelity threw a whole new twist on some tried and true advice, however. They pointed out that people really couldn't resist the temptation of touching their investments. The only people who didn't bother were dead. Thus, dead people had the best

<u>investment returns. The second best were basically dead, at least to Fidelity. They were the people who forgot they had an account with the firm.</u>
So, when you are dead, you cannot get tempted to touch your investments. You don't bother where your stocks are going. You are not tempted to sell a stock simply because the price of the company went down or assume that the recent bad economic conditions will continue perpetually into the future. Thus, dead people had the best investment returns, as per the Fidelity study.
Now, you don't need to die for the sake of a remarkable investment performance, but you get the point here, right? ***Inactivity is a great skill in investing, and it pays off handsomely.***

Source: Vishal Khandelwal, lecture at IIM Lucknow

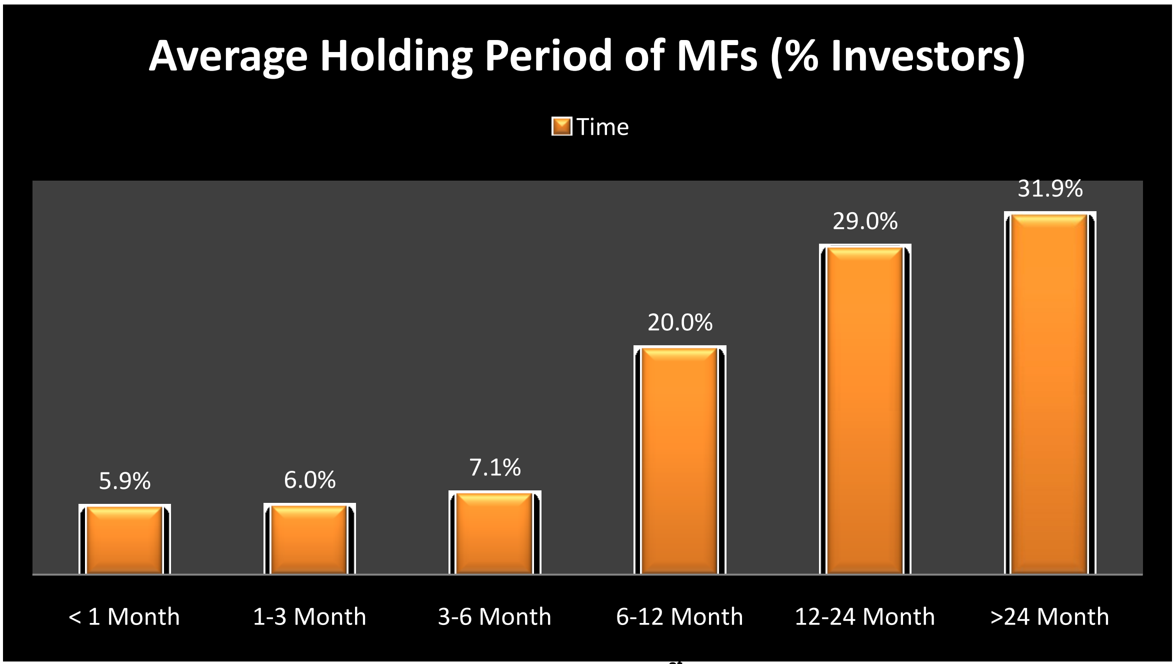
Below is the representation of maximum & minimum returns generated by an investor at different time intervals. In 1 year basis, maximum returns an investor has earned is 198% & lost 56% at any time in a year. As his holding period increases the return deviation decreases. On a 10 year basis, the maximum return an investor has earned is 44% & a minimum 9% at any time in a year.

"No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant." - Warren Buffett



Disclaimer: Past performance may or may not be sustained in future.

But as always the truth is a little different. Data from the Association of Mutual Funds of India (Amfi), the MF industry's trade body, shows that just 31.9% of equity investors stay invested for more than two years. A huge 39% of equity assets get withdrawn before a year gets over. If the hero of our story, behaved similarly in the past he would not have created that much wealth.



Source: AMFI data as on 31st March 2019

"Recency Bias" A Wealth Destructor:

"The first principle is that you must not fool yourself and you are the easiest person to fool".
- Richard Feynman

A number of investors have entered into mutual fund/equity or any other asset class and at the peak of the cycle and mostly novice. They judge the asset class based on recent performances. They expect to make similar returns over the forthcoming years. But that is not a fair approach. A majority of investors invest without planning for any financial goals. If they don't get a good experience, they simply exit out of it.

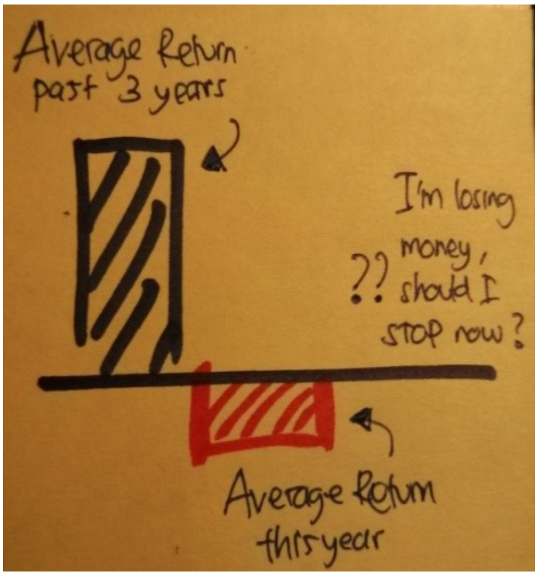


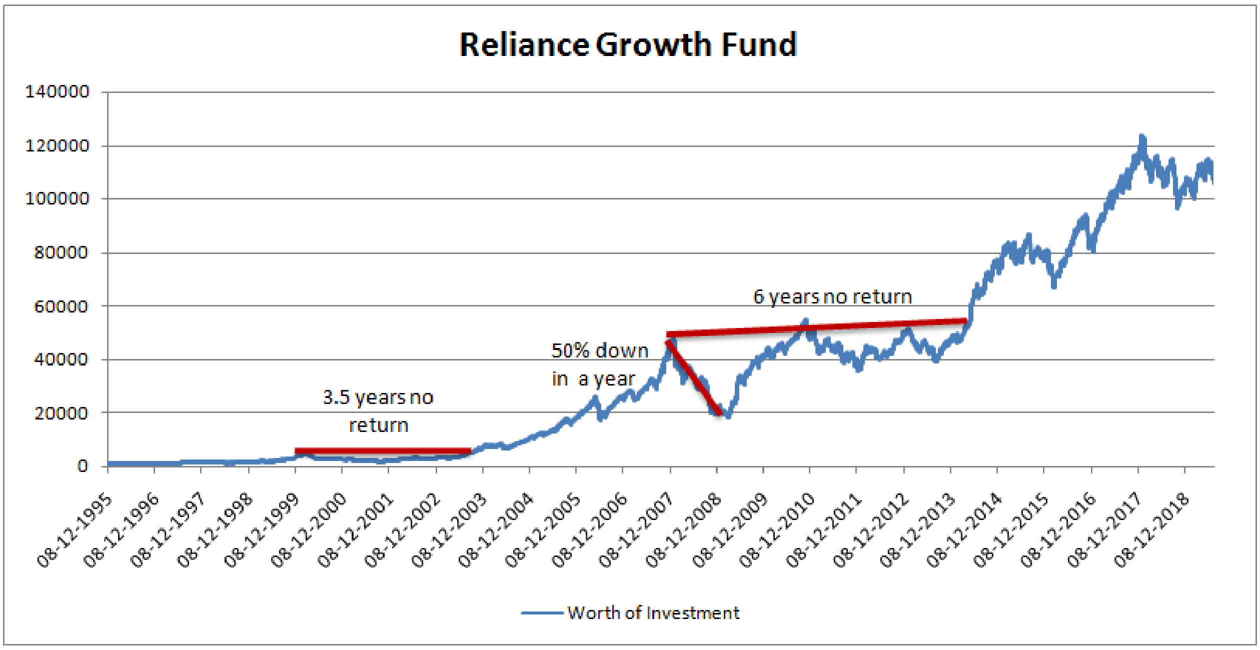
Image Credit: - [howtobuystocks]

"Inactivity" Is The Best Activity In Investing:

"All financial success comes from acting on a plan. A lot of financial failure comes from reacting to the market." - Nick Murray

The same investor (hero of our story) invested a sizable amount in a company when the price of it had fallen 22% from its peak but now the price has fallen further 30% from his average buying price. Now, he is worried about that investment. Last time we talked, he said Param company price has fallen 30% & I am monitoring the situation daily, moment it gets back to my buying price I will exit & will never invest in that company. Even though we both know that nothing has changed in the fundamentals of the company: it is run by ethical management who fairly treats it minority shareholders, operating in a niche segment & growing its earning year on year.

After this conversation, I shared with him below chart of his 100X investment and asked him how he has been able to manage these downside periods in the past. He replied; that time he was not having options to watch the daily price movements & invested amount was also not a bigger one.



Disclaimer: Past performance may or may not be sustained in future.

After our conversation, I took a break & thought deeply & understood that when you invest a large portion of your wealth in any asset class, your emotions get attached to it. Also the technology advancement & frequency of information sharing, our mind behaves differently. We feel if things are going bad chances are of happening worst. On the contrary, if things are going good, we think they will remain as good as they are.

One of my friends shared a similar story. In the 90s he had physical share certificates of some companies but when DEMAT of shares was introduced, his father got all those physical share certificates dematerialised. When information regarding 9/11 floated in 2001, his father panicked & sold all those shares **on a click.** Luckily (in hindsight), he had lost a share certificates of 5 shares, which he could not sell so he still is holding those shares which he had bought for around Rs 100 @ Rs 20 per share. Name of the company is Eicher Motors Ltd. Current value of these shares is around Rs 85,000, down from a high of a high of over Rs 1,50,000. Joking on above Fidelity story, he says he is not going to request the company for issue of duplicate share certificate.

"In investing, one way to gain an advantage over others is by ignoring the noise that is created by the constant, manic stream of opinions and by focusing on things that matter in the long run. Is it better to be right in the short term but wrong in the long term? Or vice versa? Clearly, what matters is being right in the long run. And we can all live with some failures in the short run in the interest of being right in the long run".
- Howard Marks

Because of technology advancement & easy of buying & selling the investment we behave irrationally mainly during the extremes of the market. We often believe that more action equals better performance which results in trading more frequently than necessary. We forget that the ultimate goal isn't to make trades but to make prudent decisions. If you start reacting to every small portfolio fluctuations and churn your portfolio frequently, in the long run your performance will be poor.

Jason Zweig provides us the solution for this technology threat:
"Change the password on your brokerage account to something like **IWILLTRADEONLYWHEN ABSOLUTELYNECESSARY**; research suggests frequent repetition of such a message can change behaviour."

Morgan Housel's antidote for managing behaviours at extremes:

The majority of your lifetime investment returns will be determined by decisions that take place during a small minority of the time.

Most of those periods come when everything you thought you knew about investing is thrown out the window.

How you invested from 1990 to 1998 wasn't all that important. The choices you made from 1999 to 2001 shaped the rest of your investing career.

What you did from September 2008 to March 2009 likely had more impact on your lifetime investment returns than what happened cumulatively from 2002 to 2007, or from 2009 to 2017.

The pilot's famous answer when asked about his job -- "Hours of boredom punctuated by brief moments of terror" -- applies perfectly to investing. The brief moments of terror are the rise and fall of bubbles.

****

MFP Does Investor Management, Not Only Investment Management:

MFP had its online portfolio monitoring platform since the beginning of its operation, we developed our mobile app for tracking portfolio in the second year, started doing all investment online from the third year but I kept, initiating the transaction power with me to avoid the emotional & technological triggers. I share your portfolio snapshot at the end of the month with you from the very beginning. The sharing of portfolio every month doesn't mean that we have to make changes frequently in it. But for the transparency & personal monitoring.
When you are inactive deliberately, you act decisively.

Conclusion:

- Before investing in equity check your balance sheet.
- Don't ever buy long term assets with short term sources.
- Be optimistic on the Indian economy and remain invested through volatility and economic or political challenges in the country.
- When it seems like the world is falling apart and the daily price-fall numbs the mind. It's time to believe that the future will be better than the past.
- Have faith in equities to generate inflation adjusted long term returns.
- Market moves in cycles, Mr. Market is there to serve you, not to guide you. Don't fall for 'Recency Bias'.
- Bear market & Bull market both are part of process; we can't have one without the other. Be greedy when others are fearful & be fearful when others are greedy.
- Stick to the process, remember that as an investor we can't control returns on our investment but we can control risk, cost, time & behaviour.
- Too much activity is the assassin of returns.
- So, do nothing & Stay in the course

****

I have tried to cover all the points which I felt might be of your interest by sharing my thoughts & experiences. If you have any doubt, query or any point to share, I will love to hear it.

Paramjeet Redu

09-08-2019