**2021, Letter**
**MY FINANCIAL POWER**
# 6167, 1st Floor, G Block
AEROCITY, MOHALI-160055, Punjab (India)
SIXTH ANNUAL LETTER TO INVESTORS

9 August 2021

**Dear Investor,**

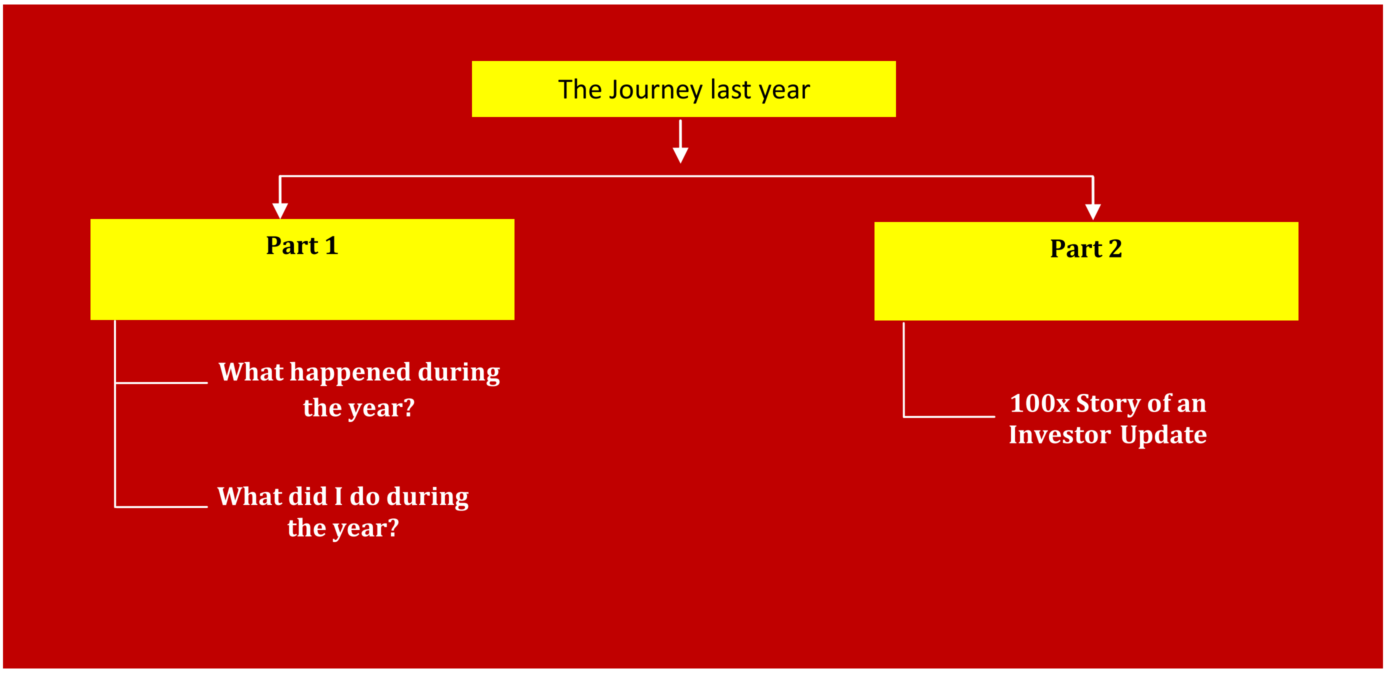
I hope during these adverse times, you and your family are in the best of health.

It gives me immense pleasure to tell you that with your constant support and confidence in MFP services, today, we have completed our 6 years of togetherness. I wish to thank you personally for putting your trust in MFP. Each one of you is of great value to us. Within the last year, we've added 13 clients. Now our total customer tally reached 118 and our assets under advisory touched 17.5 crore in May. But in July it stood at 12.40 crore due to schedule redemption of funds by a prestigious corporate client.

## MFP Journey at glance

| | 2016 | 2017 | 2018 | 2019 | 2020 | May 2021 | July 2021 |
|---|---|---|---|---|---|---|---|
| **No. of customers** | 40 | 65 | 90 | 100 | 105 | 113 | 118 |
| **Asset Under Advisory** | 50 Lakhs | 2.5 Crore | 4.5 Crore | 7 Crore | 12.12 Crore | 17.5 Crore | 12.40 Crore |

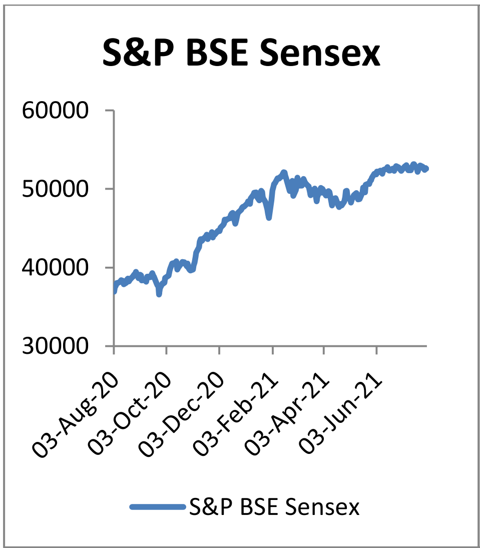
Let me take you along through this wonderful journey which I have divided into two parts. Welcome aboard!

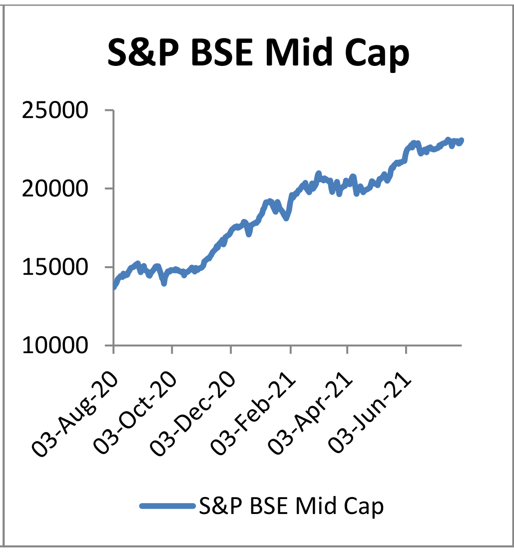


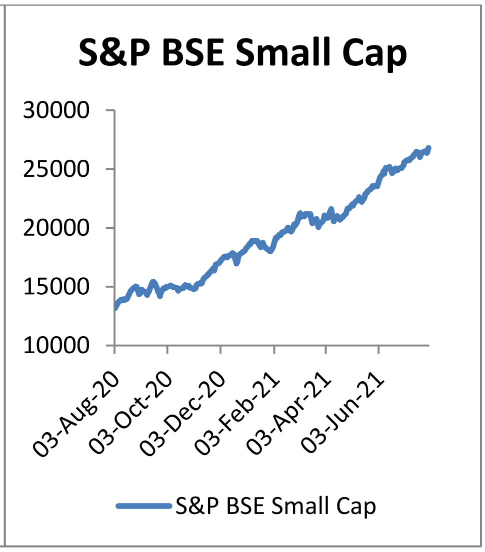
**Part 1:**

## What happened during the year?

*"Human mind thinks analytically and while it's highly effective in understanding businesses, it's ineffective in understanding markets"* ***-Robert Hagstrom, Author of Investing: The Last Liberal Art***

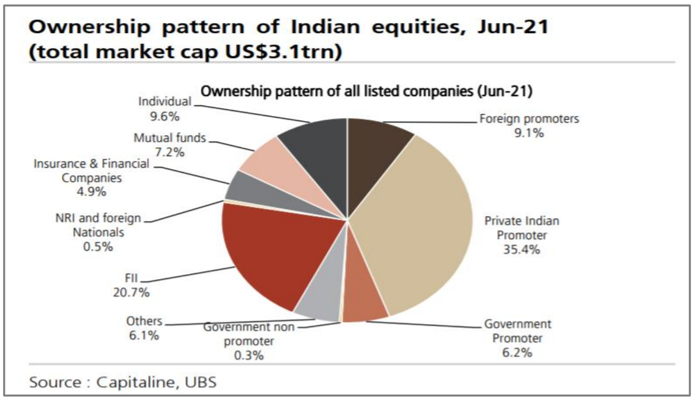



- 2020 was a historical year with wild fluctuations in the markets and sentiments seldom experienced before. It was a humbling experience for the bears as well as the bulls. From Jan 2020 to till date it was great learning journey for investor. Globally markets were at elevated valuation levels at the start of 2020 then all global market gripped by fears of corona virus. To contain the fallout of Covid 19, globally countries announced strict lockdown & fiscal measure. The United States Government announced a fiscal stimulus of USD 2 Trillion, which was about 10% of GDP. Many other countries also announced fiscal measures to fight the economic slowdown
- US Fed balance sheet expanded from 4.2 Trillion USD to 7.1 Trillion USD in its first 4 months after Covid19. The liquidity that was created in past 70 years by the central bank has been matched in first 4 months after Covid19. The surge of liquidity has found its way in all asset classes including equities. Rally in equity markets has been much ahead of recovery in real economy. As line with developed market, Indian government also announced "stimulus package" of Rs20 Trillion, equivalent to 10% of GDP.
- Apart from central banks, there has been increased retail participation that has also helped stocks recovery. Retail investors across countries such as US, Australia & India have flocked to the stock markets with vigour and enthusiasm. The culmination, rather start of investing habit, of most of the first time investors is ostensibly by-products of lockdown. People can no longer bet on sports events and go to casino due to lockdown. Many have taken to betting on the stock markets as a result. They are called Robinhood investors in US, by name of the platform they do daily trades on. India is no different and has seen an increased participation from retail investors. CDSL, India's largest depository active Demat account count reached to 4 crore up from 2.12 crore in March 2020. Share of retail volumes in daily market turnover have far exceeded institutional investors. Retail

(individual) ownership of Indian equities at 9.6% is now at a 12-year high. If one views MFs as agents/intermediaries of households investing into markets, then total household ownership of Indian equities at 16.8% is now at a 15-year high.




- Initially market rally was limited to selective stocks but from November 2020 onwards all sectors participated in the market rally.
- Though second wave of Covid 19 has affected India badly, people lost their loved ones. But this time centre given the responsibility to the state governments to manage the covid. Prudently State governments this time did not put strict lockdown as compared to the last year & work diligently on vaccination policy. Market participants also evaluated it and market momentum did not shake up much this time and soon it starts making new highs. Bull operators continued to smile throughout the breadth of entire second wave tenure.
- On Fixed income/Debt market, investors witnessed a year of low returns across various categories. Interest rates on bank deposits and returns on liquid and money market funds went to level which was last seen during 2008 financial crisis. Liquidity surplus in the Banking system has been kept over Rs6 trillion for most of the time in the past year. This high liquidity surplus has kept the short term money market rates such as 3-month treasury bill or PSU CP/ CDs below the reverse repo rate.

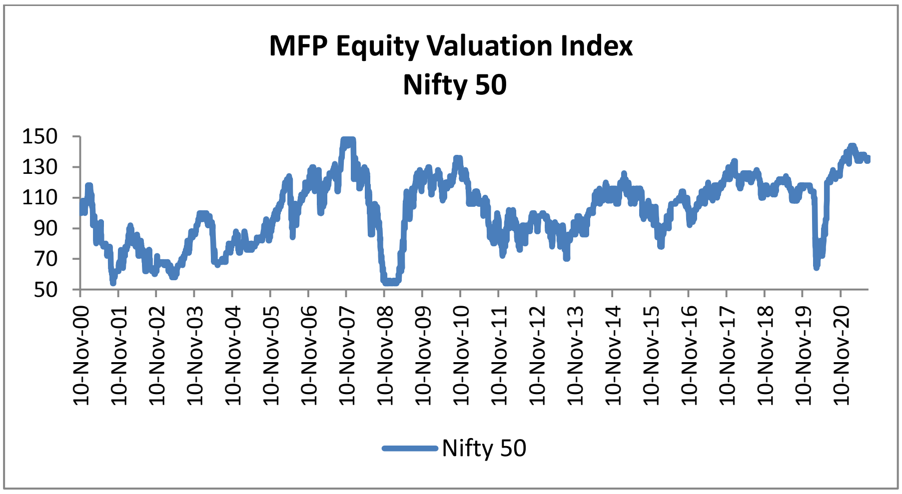
  Increase in commodities price post Covid 19 leads to inflation, which reduced the possibility of further rate cut from RBI. From last few months, an upward trend has also visible in bond yields.
- Overall, S&P BSE Sensex appreciated 39.83% during the year. In comparison, BSE Midcap and BSE Smallcap indices ran up 67.8% and 105.71% respectively.

  Since inception of MFP in the year 2015, S&P BSE Sensex has generated compounded return of 10.92%. In comparison, S&P BSE Midcap and S&P BSE Small cap have generated 12.22% and 14.16% respectively.

| Market Performance at a Glance | | | | | | |
|---|---|---|---|---|---|---|
| **Indices** | **01-08-2020 to 31-07-2021** | **01-08-2019 to 31-07-2020** | **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 | 40% | 2% | - 0.1% | 15% | 16% | -0.6% |
| S&P BSE MIDCAP | 68% | 2% | -15% | 4% | 21% | 10% |
| S&P BSE SMALL CAP | 106% | 4% | -24% | 3% | 31% | 2% |

# What did I do during the year?

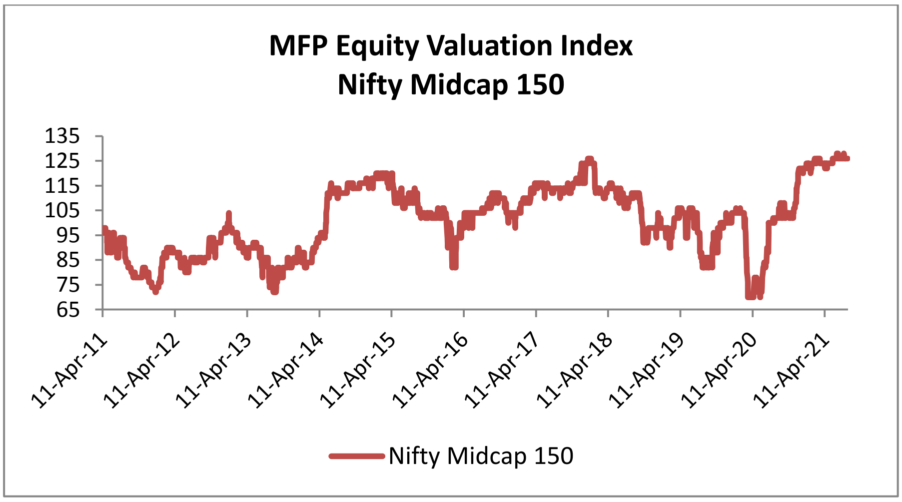
*"The markets can remain irrational longer than you can remain solvent."*
*- John Maynard Keynes*




### MFP Equity Valuation Framework- Nifty 50:

***Above 140:*** *Highly Overvalued*
***120-140:*** *Overvalued*
***90-120:*** *Neutral*
***70-90:*** *Undervalued*
***Below 70:*** *Deeply Undervalued*

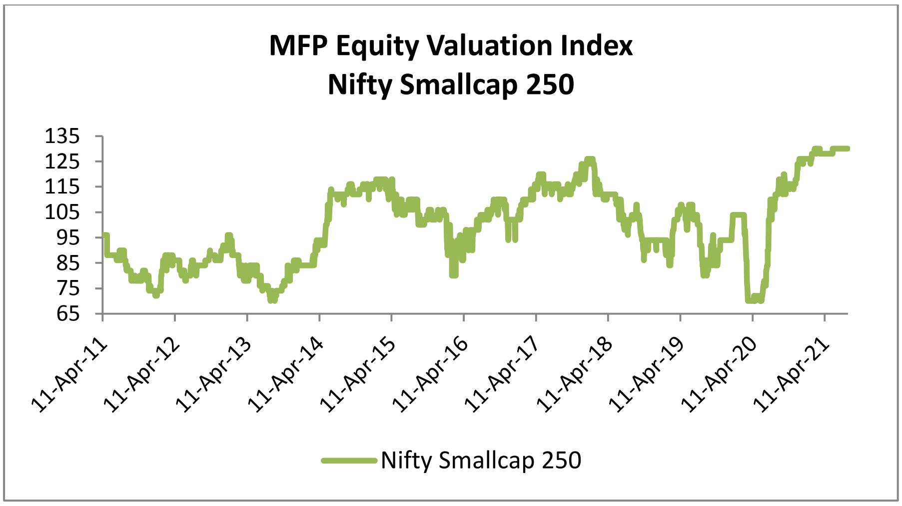
MFP Equity Valuation Framework uses Price to earnings(P/E), Price to Book(P/B) of Nifty 50, Market cap to GDP ratio, Earning yield to 10 year G-sec and technical analysis to determine valuation attractiveness.




### MFP Equity Valuation Framework- Nifty Midcap 150:

***Above 125:*** *Highly Overvalued*
***116-120:*** *Overvalued*
***86-115:*** *Neutral*
***76-85:*** *Undervalued*
***Below 75:*** *Deeply Undervalued*

MFP Equity Valuation Framework uses Price to Book (P/B) of Nifty Midcap 150, Market cap to GDP ratio & technical analysis to determine valuation attractiveness.




### MFP Equity Valuation Framework- Nifty Smallcap 250:

***Above 125:*** *Highly Overvalued*
***116-120:*** *Overvalued*
***86-115:*** *Neutral*
***76-85:*** *Undervalued*
***Below 75:*** *Deeply Undervalued*

MFP Equity Valuation Framework uses Price to Book (P/B) of Nifty Smallcap 250, Market cap to GDP ratio & technical analysis to determine valuation attractiveness.

Source: MFP Research

MFP is using its own above highlighted framework for selecting & advising its clients. As per above mention criteria: highly overvalued zone means aggressively profit booking from equity, overvalued zone means profit booking at slower pace from equity, neutral zone is no buying and selling zone, undervalued zone means lumsum buying at slower pace in equity market and deeply undervalued zone means lump sum buying at very aggressive pace in equity market.

***This whole framework has been designed on the basis of our core philosophy of "Win by not losing". Our strategy is to do as well - as the market - when it does well and, better than the market when it does poorly. At first place it may sound like a modest goal, but it's really quite ambitious.***

## "Win.. by not Losing"

### Rule No.1: Never lose money

| Year | Return Generated By Fund Manager A | Value of Rs.100 At The End of The Year | Return Generated By Fund manager B | Value of Rs.100 At The End of The Year |
|---|---|---|---|---|
| 1 | 35% | 135 | 15% | 115 |
| 2 | 75% | 236 | 20% | 138 |
| **3** | **-55%** | **106** | **9%** | **150** |
| 4 | 25% | 133 | 20% | 181 |
| 5 | 20% | **159** | 14% | **206** |

*Source : - Rajeev Thakkar Presentation*

### Rule No.2: Never forget rule No.1

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As an advisor I am happy to give my money to Fund Manager B because in the long run **He Delivered Returns Not Just Excitements.**

During the year, as per above mentioned MFP framework, nifty 50 index traded from overvalued zone to highly overvalued zone, whereas nifty midcap 150 index traded from neutral zone to highly overvalued zone & nifty smallcap 250 index traded from neutral zone to highly overvalued zone.

So, we suggested following things during the year:

- Investing money through Systematic Investment Plans (SIPs) for their goals.
- Avoid lump sum buying in equity at these levels as margin of safety is low.
- Use Systematic Transfer Plan (STP) for profit booking in equity with hybrid rebalancing (We check the portfolio twice: 15th & 30th of a month, but only rebalance if asset classes have entered MFP highly overvalued and highly undervalued zone).
- On Fixed income/Debt market, we suggested short duration debt funds (liquid fund, ultra short bond fund, money market fund & floating rate bond funds) & short duration fixed deposit from banks or post office to our investors for their less than 3 years goal.
- Stick to your asset allocation, which balances the risk profile of your investment portfolio.

Below graph represent that no asset class performed well all the time. An equally weighted - portfolio with periodically rebalancing delivered excellent returns.

| Asset Class Wise Returns Over The Decade | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Asset Class** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **CAGR Return** | **Rank** |
| **Gold** | 24% | 29% | 12% | -18% | 2% | -8% | 11% | 6% | 8% | 18% | 27% | | |
| *Value of Rs 100 Invested* | *124.0* | *160.0* | *179.2* | *146.9* | *149.8* | *137.9* | *153.0* | *162.2* | *175.2* | *206.7* | *262.8* | ***9.2%*** | 4 |
| **Real Estate** | 5.50% | 17.72% | 17.07% | 7.46% | 11.91% | 4.52% | 9.63% | 6.40% | 4.83% | 2.60% | 1.20% | | |
| *Value of Rs 100 Invested* | *105.5* | *124.2* | *145.4* | *156.2* | *174.8* | *182.8* | *200.4* | *213.2* | *223.5* | *229.3* | *232.0* | ***8.0%*** | 10 |
| **Large Cap Mutual Fund** | 17.43% | -24.64% | 25.70% | 8.98% | 29.89% | -5.03% | 1.95% | 27.91% | 5.91% | 12.65% | 14.64% | | |
| *Value of Rs 100 Invested* | *117.4* | *88.5* | *111.2* | *121.2* | *157.5* | *149.5* | *152.5* | *195.0* | *206.5* | *232.7* | *266.7* | ***9.3%*** | 3 |
| **Mid Cap Mutual Fund** | 16.15% | -34.19% | 38.52% | -5.73% | 54.69% | 7.43% | 7.97% | 48.13% | -13.38% | -4.01% | 18.83% | | |
| *Value of Rs 100 Invested* | *116.2* | *76.4* | *105.9* | *99.8* | *154.4* | *165.9* | *179.1* | *265.3* | *229.8* | *220.6* | *262.1* | ***9.2%*** | 5 |
| **Small Cap Mutual Fund** | 16.69% | -36.41% | 36.45% | -9.67% | 62.91% | 6.10% | 1.77% | 59.64% | -23.53% | -8.98% | 30.75% | | |
| *Value of Rs 100 Invested* | *116.7* | *74.2* | *101.3* | *91.5* | *149.0* | *158.1* | *160.9* | *256.8* | *196.4* | *178.8* | *233.7* | ***8.0%*** | 9 |
| **International Mutual Fund** | 12.78% | 0% | 13.40% | 29.60% | 11.39% | -0.73% | 9.54% | 19.42% | -6.24% | 27.31% | 14.66% | | |
| *Value of Rs 100 Invested* | *112.8* | *112.8* | *127.9* | *165.7* | *184.6* | *183.3* | *200.8* | *239.8* | *224.8* | *286.2* | *328.1* | ***11.4%*** | 1 |
| **Credit Risk Mutual Fund** | 6% | 8% | 11% | 7% | 14% | 10% | 12% | 8% | 5% | 8% | 11% | | |
| *Value of Rs 100 Invested* | *106.0* | *114.5* | *127.1* | *136.0* | *155.0* | *170.5* | *191.0* | *206.2* | *216.6* | *233.9* | *260.4* | ***9.1%*** | 6 |
| **Corporate Bond Mutual Fund** | 7% | 8% | 11% | 6% | 13% | 9% | 12% | 7% | 5% | 10% | 12% | | |
| *Value of Rs 100 Invested* | *107.0* | *115.6* | *128.3* | *136.0* | *153.6* | *167.5* | *187.6* | *200.7* | *210.7* | *231.8* | *260.2* | ***9.1%*** | 7 |
| **Government Securities** | 4% | 4% | 13% | 2% | 17% | 7% | 15% | 2% | 8% | 12% | 13% | | |
| *Value of Rs 100 Invested* | *104.0* | *108.2* | *122.2* | *124.7* | *145.9* | *156.1* | *179.5* | *183.1* | *197.7* | *221.4* | *249.8* | ***8.7%*** | 8 |
| **T-Bill** | 3% | 4.61% | 5.59% | 5.50% | 5.72% | 5.38% | 4.73% | 4.03% | 4.08% | 4.20% | 3.06% | | |
| *Value of Rs 100 Invested* | *103.0* | *107.7* | *113.8* | *120.0* | *126.9* | *133.7* | *140.0* | *145.7* | *151.6* | *158.0* | *162.8* | ***4.5%*** | 11 |
| **Equally Weighted Portfolio** | 11% | -2% | 18% | 3% | 22% | 4% | 9% | 19% | 0% | 8% | 15% | | |
| *Value of Rs 100 Invested* | *111.3* | *108.6* | *128.5* | *132.8* | *162.4* | *168.1* | *182.5* | *217.0* | *216.5* | *234.1* | *268.5* | ***9.4%*** | 2 |

Source: MFP Research, Livemint

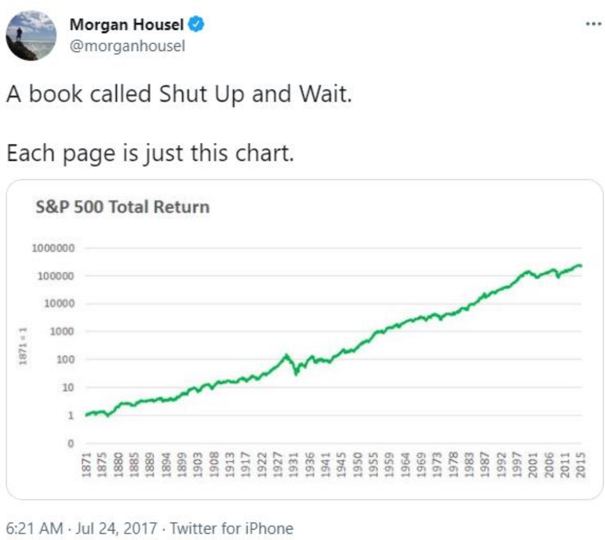
## Part 2:

### 100x Story of an Investor Update

> *"If we are limited to just one word of wisdom about decision-making for children born a hundred years from now, people who will have all our advantages and limitations as human beings but will need to navigate an unimaginably faster-paced world than the one we confront now, there is no doubt what that word should be.*
>
> ***Wait.***
>
> **- Frank Partnoy**

100 Bagger story which I covered in my 2019 newsletter, now become 193 bagger. From 100 bagger to193 bagger is not at all a smooth journey. Before Covid 19 crash it went upto 124 bagger and fallen back to 80 bagger in March 2020. From bottom 80 bagger on 23rd march 2020, the fund value went up to193 bagger again and it shows compounding work best at long term.


This story is similar to what Morgan Housel written "SHUT UP AND WAIT" Story.



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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