

MY FINANCIAL POWER
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Mohali – 140 603, Punjab (India)
MFP EIGHTH ANNUAL LETTER TO INVESTORS
2023

9 August 2023

Dear Investors,

I hope you and your family are in the best of health and prosperity.

It gives me immense pleasure to share with you that with your constant support and confidence in MFP services, today, we have completed 8 years of togetherness. I wish to thank personally to each one of you for putting your trust in MFP.

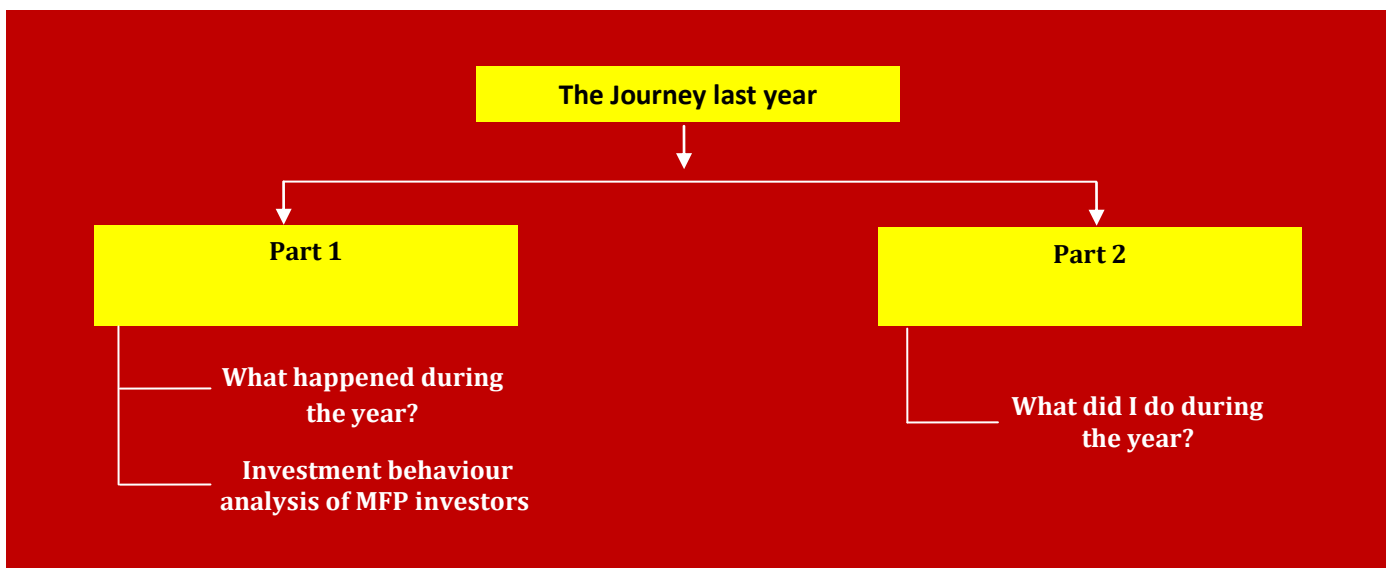
My aim is to help my investors in achieving their short, medium and long term financial goals. It makes me feel happy to witness different financial goals of my investors get fulfilled - like - someone paying off his loans early, someone buying his dream house with least hustle-bustle, someone attaining financial independence, someone accomplishing child education funds etc.

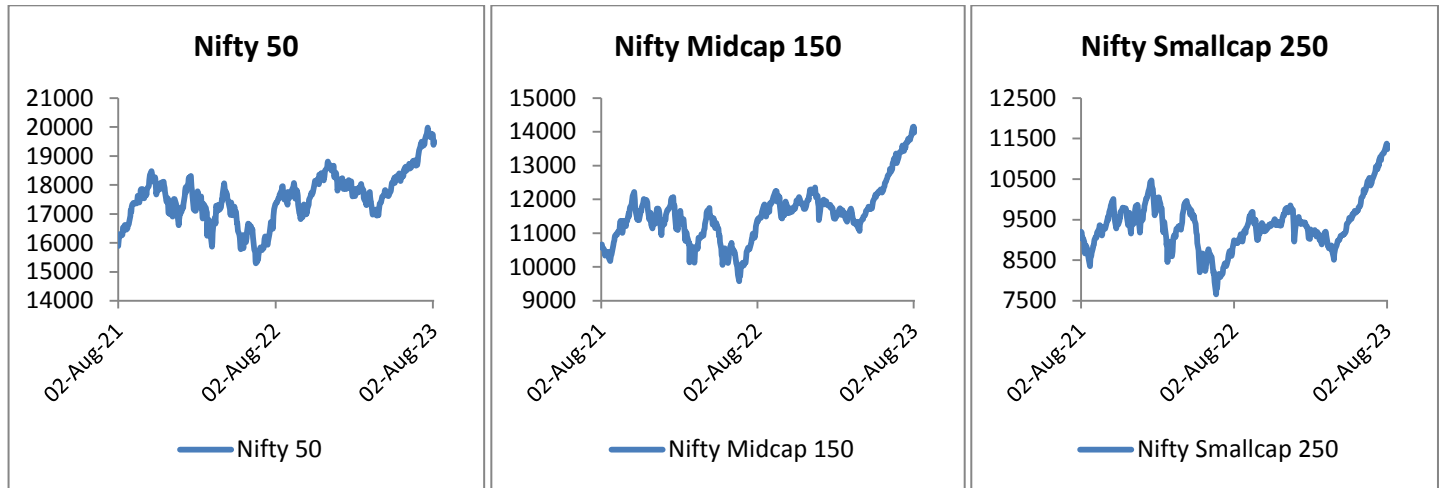
Within the last year, we've added 20 clients. Now our total customer tally stands at 149 and our asset under advisory stood at 15 crore after adjusting scheduled redemption of funds by clients who achieved their short, medium or long term financial goals.

MFP Journey at a Glance

	2016	2017	2018	2019	2020	2021	2022	2023
No. of Customers	40	65	90	100	105	118	129	149
Asset Under Advisory	0.5 Crore	2.5 Crore	4.5 Crore	7 Crore	12.12 Crore	12.40 Crore	12.17 Crore	15 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?***"Chance only favours the prepared mind." - Louis Pasteur*

- Post Covid, Indian equity markets were in strong upward momentum and it happened because of hefty, improvement in the corporate balance sheets and ample liquidity created by the central banks across the world. October 2021 onwards, this strong upward momentum turned into downward momentum because of rising commodity prices, surging inflation, and supply chain disruptions. To control rising inflation, central banks across the globe started taking hard stance on interest rates.
- Tightening of liquidity has made foreign institutional investors (FII's) to withdraw their money from Indian equity and it led to fall in all major indices. Nifty 50 fallen more than 17.23% from its peak whereas Nifty Next 50, Nifty Midcap 150, Nifty Small cap 250 and Nifty 200 Momentum 30 index fallen 21.8%, 21.6%, 26.9% and 28.4% respectively.
- After making short term bottom in June 2022, Nifty 50 made new high in Nov 2022, but in March 2023 this rally has shaken again due to failure of the Silicon Valley Bank and the Signature Bank in the US and the collapse of Credit Suisse in Europe that triggered a global risk-off sentiment. After this fall, Indian market valuation became attractive and entered into fair value zone.
- After 18 months of consolidation from April 2023 onwards, Indian market shown strong momentum on back of strong FIIs inflow. Nifty 50 appreciated 13.8% were as Nifty Next 50, Nifty Midcap 150, Nifty Small cap 250 and Nifty 200 Momentum 30 indexes appreciated 19.8%, 24.6%, 29.2% and 22.7% respectively.
- **On Fixed income/Debt market:** In last 16 months, RBI raised Repo rate (Rate at which banks borrow from the RBI) 2.5% cumulatively from 4.0% to 6.5%. It also raised the Cash Reserve Ratio (CRR - portion of deposits banks have to keep with the RBI as reserves) from 4.0% to 4.5%.

In last 1 year, the 10-year government bond yield fall from its peak at 7.60% to 6.9% and now currently trading around 7.17%.

From an investor's perspective, the return potential of liquid and debt funds has improved significantly after the sharp jump in bond yields over the last six months. The gap between the bank savings rates and liquid fund returns will widen and remain attractive for your

surplus funds. Medium to Long term interest rates in the bond markets are already at long-term averages as compared to fixed deposits which remain low.

- Overall, Nifty 50 appreciated 14% during the year. In comparison, Nifty Next 50, Nifty Midcap 150, Nifty Small cap 250 and Nifty 200 Momentum 30 indexes delivered 9.2%, 24.5%, 27.2% and 21.7% return respectively.

Since inception of MFP in the year 2015, Nifty 50 has generated compounded return of 11% with maximum drawdown of -38% from its peak. In comparison, Nifty Next 50, Nifty Midcap 150, Nifty Small cap 250 and Nifty 200 Momentum 30 index have generated 9.8%, 15%, 11.8% and 15.5% return with maximum drawdown of -42%, -44%, -61% and -34% respectively.

In academics it is taught that the high risk means high returns but in investing low drawdown means high returns. Here the case is Nifty Small cap 250 which fallen -61% between Jan 2018 to Mar 2020 and delivered 11.8% CAGR since MFP inception whereas in the same period Nifty 200 Momentum 30 index which has fallen -34% and delivered 15.5% CAGR (compounded annual growth rate).

Market Performance at a Glance					
Time Period	Nifty 50	Nifty Next 50	Nifty Mid Cap 150	Nifty Small Cap 250	Nifty 200 Momentum 30
01-08-2022 to 31-07-2023	14%	9.2%	24.5%	27.2%	21.7%
01-08-2021 to 31-07-2022	8.9%	3.9%	6.6%	-3.7%	-4.4%
01-08-2020 to 31-07-2021	42.5%	46.7%	79.4%	111.8%	61.9%
01-08-2019 to 31-07-2020	0.9%	4.4%	2.5%	-4.5%	13.2%
01-08-2018 to 31-07-2019	-2%	-12.5%	-13.6%	-23%	6.1%
01-08-2017 to 31-07-2018	12.3%	6.5%	7.4%	-4.6%	17.2%
01-08-2016 to 31-07-2017	16.7%	24.1%	27.3%	30.8%	29%
09-08-2015 to 31-07-2016	0.9%	4.5%	4.9%	2.4%	1.9%
Since MFP Inception 09-08-2015 to 31-07-2023	11%	9.8%	15%	11.8%	15.5%
Maximum Drawdown during 09-08-2015 to 31-07-2023	-38%	-42%	-44%	-61%	-34%

Investment Behaviour Analysis of MFP Investors

“We don’t have to be smarter than the rest. We have to be more disciplined than the rest.” – Warren Buffett

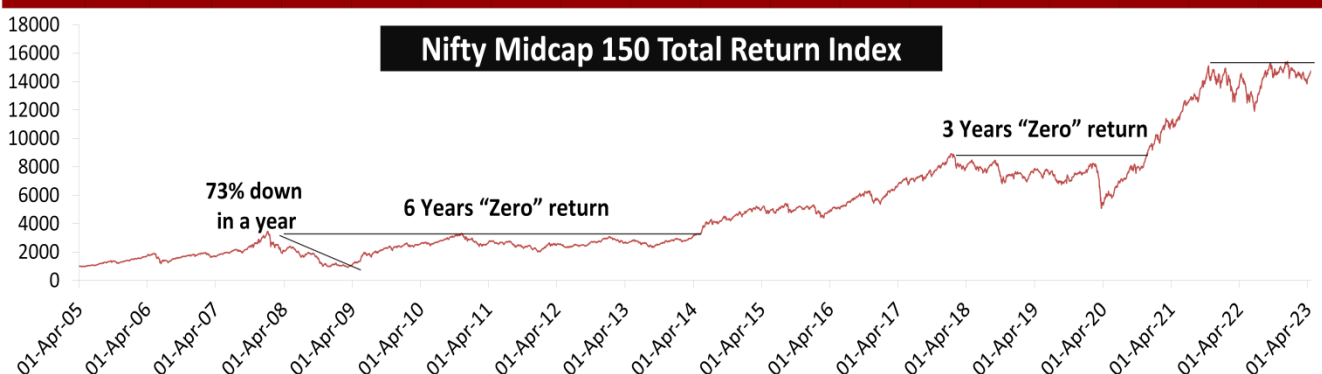
In the 2019 annual letter, I shared the real story of an investor whose investment multiplied 100 times, and now that investment has multiplied more than 257 times for him. In 1995, he invested Rs 1000 in the Nippon India Growth Fund (earlier Reliance Growth Fund), the current value of his investment is 257505. [Click here](#) to read the report on 257x story of an investor. In that report, I shared a lesson on how he behaves during the 257X journey.

Every investor wants to generate this type of return on his investment, but only a few will be able to achieve so. During that period, Investment moves through different phases (smooth to volatile phase, good return to zero return, or negative return phase), and only a few investors have the courage to stay invested during all those phases.

Biography of a SIP by WhiteOak Capital Mutual Fund

A SIP started in April 2005 with Rs 10,000 monthly contribution on 1st of every month in Nifty Midcap 150 TRI Fund would have grown from Rs. 21.6 lakhs to Rs. 99.95 lakhs at the end of 18th year with an CAGR of 15.2%.

	Don't Worry Phase					Stay Patient Phase					Aims of Wealth Building Phase							
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	1 st year	2 nd year	3 rd year	4 th year	5 th year	6 th year	7 th year	8 th year	9 th year	10 th year	11 th year	12 th year	13 th year	14 th year	15 th year	16 th year	17 th year	18 th year
Invested Amount	1,20,000	2,40,000	3,60,000	4,80,000	6,00,000	7,20,000	8,40,000	9,60,000	10,80,000	12,00,000	13,20,000	14,40,000	15,60,000	16,80,000	18,00,000	19,20,000	20,40,000	21,60,000
Value of Investment	1,70,252	2,92,731	4,63,828	3,35,831	9,50,234	11,14,690	11,71,994	13,59,666	17,25,218	29,40,169	29,89,618	42,23,935	50,52,414	51,56,261	36,15,393	77,14,344	97,47,885	99,95,886
CAGR Return	85.3%	20.3%	17.2%	-21.2%	18.4%	14.4%	9.4%	8.5%	10.1%	17.1%	14.1%	16.8%	16.7%	14.8%	8.7%	15.7%	16.4%	15.2%



*Past performance may or may not sustain in future.

Source: WhiteOak Mutual Fund

www.mfp.co.in

Recently Cafemutual shared a [report](#) where they have mentioned:

*“Industry data reveals that 27% of the total SIP AUM in regular plan has stayed invested for over 5 years. Of the SIP AUM of Rs.6.50 lakh crore in regular plans, Rs.1.80 lakh crore has been invested for over 5 years. **In terms of a number of accounts, 16% of the total SIP accounts are active for more than 5 years.**”*

*On the other hand, 15% of the total SIP AUM in direct plan have longevity of over 5 years. **In terms of SIP accounts, 4% of total SIP accounts have been active for over 5 years.**”*

SIPs Coming Through Distributors Stay Longer Compared to Direct SIPs

Regular Plan					Direct Plan				
SIP accounts continuing for (years)	No. of SIP accounts	% SIP accounts	AUM (cr)	AUM%	SIP accounts continuing for (years)	No. of SIP accounts	%SIP accounts	AUM (cr)	AUM%
> 5years	71,36,386	16%	1,79,220	27%	> 5years	9,39,849	4%	20,564	15%
> 4 years upto 5 years	36,66,488	8%	70,304	11%	> 4 years upto 5 years	12,02,608	6%	13,256	10%
> 3 years upto 4 years	29,72,058	7%	80,748	12%	> 3 years upto 4 years	15,48,494	7%	16,964	12%
> 2 years upto 3 years	49,88,732	11%	82,772	13%	> 2 years upto 3 years	30,34,331	14%	19,439	14%
> 1 year upto 2 years	97,84,710	22%	1,03,708	16%	> 1 year upto 2 years	59,24,488	27%	28,608	21%
Less than < 1 year	1,61,46,978	36%	1,37,925	21%	Less than < 1 year	91,91,911	42%	40,102	29%
Total	4,46,95,352	100%	6,54,676	100%	Total	2,18,41,681	100%	1,38,933	100%

Source: cafemutual.com

At MFP, I believe 90% of my job is to manage investor's behaviour and 10% is to do asset allocation and fund selection. In this report, I want to highlight MFP investors SIP data in comparison with industry data.

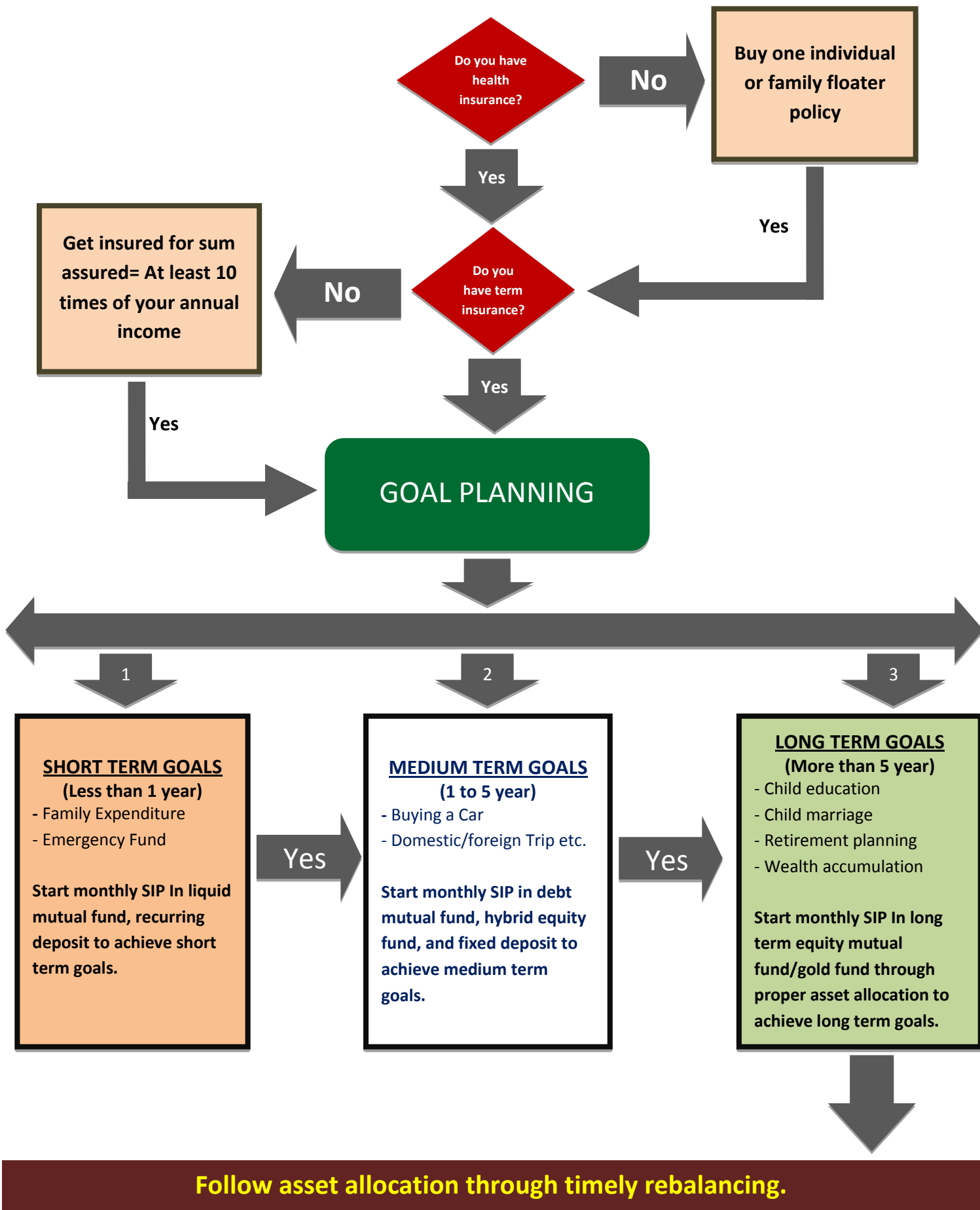
- Over the 5 years, we have had 90 investors who invested through us; 82 out of the 90 investors invested in equity mutual funds through SIP, whereas the remaining investors invested either lump sum or in debt funds as per their investment goals.
- No. of investors whose SIP continues:**
 - 85%** of our SIP AUM (asset under management) has stayed for over a 5 year period, whereas only 27% of industry SIPs through distributors stay invested and only 15% SIPs through direct plan stay invested.
 - In terms of SIP accounts, **77%** of SIP accounts have been active for over 5 years, whereas only 16% of industry SIPs through distributors are active and only 4% SIPs through direct plans are active.

This is the result of the process we follow while onboarding our investors. We follow a very strict process before suggesting SIPs in equity. We know investment in equity is cyclical in nature, and the returns shown in the bull market can make any investor a long-term investor. But before recommending equity, we try to understand every investor's current financial situation and his future financial obligations through the MFP personal finance checklist chart (image below). Only once we allocate money for his short and medium-term goals, then we recommend SIPs in equity with a mix of other asset classes (gold/debt). We decide right asset allocation, regularly monitor it and recommend periodic rebalancing whenever necessary.

Why asset allocation:

- From 1992 to 2003, the S&P BSE Sensex gave no returns, but in the next 4 years (2003 to 2007), the S&P BSE Sensex moved by 6 times.
- From 2012 to 2019, Gold gave no returns, but in the next year (2019 to 2020), Gold gave more than 66% returns.
- Living through both of these times is difficult if there is no Asset Allocation.

MFP Personal Finance Chart



- **No. of investors who increased their SIP:** 45% of our investors increased their SIP contribution over the 5-year period. These investors increase their SIP contribution as their income grows or once they understand the power of equity in wealth creation as well as beating inflation by staying invested in different phases of the market. Continuous increase in SIP will help them achieve their investment goals early. We recommend that our investors increase their SIP contribution whenever their income increases.
- **No. of investors who stopped their SIPs and withdrawn their entire amount:**
 - 4% of our investors stopped their sip contributions and withdrew their whole amount over the 2-year period.
 - 7% of our investors stopped their sip contributions and withdrew their whole amount over the 3-year period.
 - 3% of our investors stopped their sip contributions and withdrew their whole amount over the 5- year period.

I feel this is a failure of our communication, and we will make every effort to reduce this number.

MFP Investors Investment Statistics

*"It's only human nature to pay attention to short-term results but investment enlightenment is only achieved once you realize long-run is the only time horizon that matters.
Successful investing is for patient people." - Ben Carlson*

	MFP Investors who invested over 5 Years	MFP Investors who invested over 3 Years
Total no. of investor	90	105
No. of investors who invested through SIP in equity funds	82	90
No. of investors who's equity SIP continued & invested more than 5/3 years	70 (85%)	85 (94%)
No. of investors who's SIP is continue	63 (77%)	69 (77%)
No. of investors who increased their SIP	37 (45%)	38 (42%)
No. of investors who paused their SIPs but amount stay invested	7 (9%)	9 (10%)
No. of investors who stopped their SIPs & withdraw their all amount	3 (3%)	7 (7%)
No. of investors who stopped their SIPs but withdraw partial amount	21 (26%)	27 (30%)

Part 2:

What did I do during the year?

“You can’t take the same actions as everyone else and expect to outperform.” - Howard Marks

During the year, as per the above-mentioned MFP framework, we suggested the following things:

- Investing money through Systematic Investment Plans (SIPs) for their goals.
- Recommended lump sum buying in equity during February and March 2023 as the market was in the fair value zone.
- On the Fixed income/Debt market, I suggested short-duration debt funds (liquid fund, ultra-short bond fund, money market fund, and floating rate bond funds) to investors for short-term goals and for more medium-term goals, I suggested dynamic bond funds, which have the flexibility to change the portfolio positioning as per the evolving market conditions.
- Stick to your asset allocation, which balances the risk profile of your investment portfolio.

I have tried to cover all the points that I felt might be of interest to you by sharing my thoughts and experiences. If you have any doubts, queries, or points to share, I would love to hear them.

Paramjeet Redu