DSP Webinar by Mr. Kalpen Parekh

Predicting rain doesn't count, building an ark does.

Fundamentals are distanced from ground realities.

Interest rates below zero or at zero in many parts of the world. **Interest rates act as gravity.** If gravity on earth starts reducing, we will all float; we will lose touch from the ground. If interest rates go to zero, as these are used in discounting, asset classes start losing touch with reality and float upwards. Due to interest rate fall, bonds have gone up.

In **Global markets**, more and more debt has been raised at very low rates of 0% or very low. Central banks are doing their best to keep interest rates low. Very unusual.

All **commodity prices have crashed** (agri, oil, etc). They are indicators of future growth. If crashing, then no sign of growth, but still Equity markets were at life time high pre-COVID but again in last couple of weeks, they are close to their peak levels.

Commodity market – saying no growth, but Equity market saying something else.

GoI bond close to 6%, spread is still there between overnight money, in bullish markets it's usually 0%.

For **India we should be worried**. Despite lockdown numbers not coming down like other parts of the world. Maybe series 2 and series 3 of lockdown coming which may see a recession and smaller businesses collapsing.

Healthcare as a theme - India has strength as India is pharmacy of the world.

We could see a **lot** of **intermittent market rallies of 15-20% up and then again down.**

There are always stretches of markets where returns are not there at all. It may make many investors impatient.

Emergence of **demand for Hedge fund** will come again.

Gold will be relevant ahead than it has been for the last decade. (Scenario B)

Some Food for thought – (i) Bonds have earned more returns than Equities in this century (ii) Total World Debt: 260 Trillion USD @ historic low rates (iii) Total World Equity Market Cap: 80 Trillion USD (iv) Quantity of debt has gone up 3 X in last decade, Price of Debt has Crashed — unusual, isn't it (v) COVID was a pin to break this bubble — Equity markets now listening to Bonds.

Future - SCENARIO A: Equities reach a new high again, high bond spreads collapse, interest rates can rise, gradual recovery & stable inflation Products: Equity Funds, Corporate Bond Funds, Healthcare as a theme | SCENARIO B: Delayed Recovery, business model shifts, huge impact to lending & leveraged businesses, bear market rallies and deeper market correction, recession, and then fiscal stimulus Products : free cash flow durable companies, Hedge funds with absolute returns focus, low maturity roll down funds/FMPs, Gold.

In both scenarios, avoid leverage, stick to Leaders who don't need Debt & can survive volatility, Balance Sheet Investing.

<u>Rules of Investing</u>

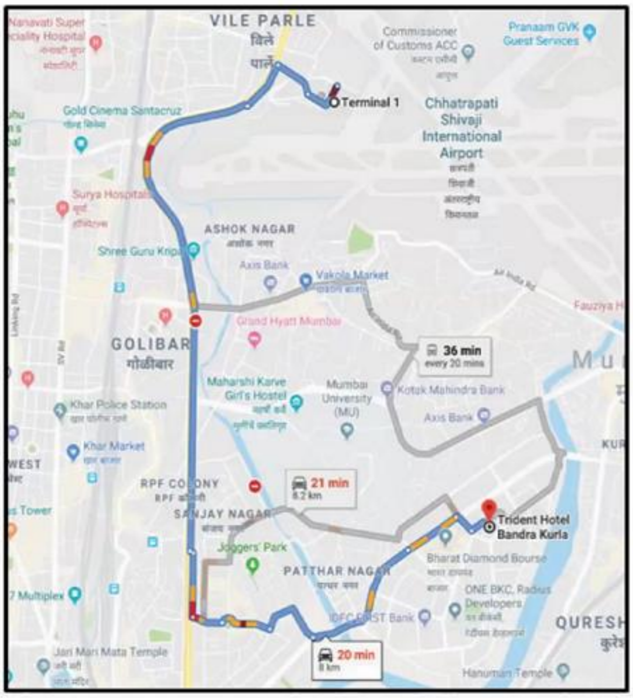
Knowing where the risk is important.

<u>The price you are paying</u>. Buy stocks like groceries (you bargain) not like perfume (you pay a lot of premium). We rarely invest in bargains! – Margin of safety is important. Is the price discounting all the good news and the bad news?

<u>Don't be lost in excess info</u>, have your maps ready.

If you get 100 pieces of information, only 5 are relevant, other 95 are not adding marginal utility.

For example the one on the left is simple; the one on right is very complex.



<u>Everyone has a view on what PM/FM should do. No one knows what they should do.</u> Excess information is an enemy of good returns.

<u>Respect concept of probabilities and base rates</u>. Don't just go what is the view in front of you.

To judge an asset class, go back to the base rates of the asset class (10 year history).

When in doubt, avoid overconfident people. (It is ok to be in doubt and be confused.)

<u>World over, most predictions have failed but there is a lot of demand for predictions and hence there is a lot of supply of predictions.</u>

Stories move human beings and make us act.

Which one will work more? A king was fighting a battle and then that time there was a rule that when sun goes down, fighting will stop and the other day it will restart. But one king wanted to win, so he looked up to the sun and said don't set today. This story is still famous today and is popular folklore. But according to NASA, scientifically there was an eclipse and hence sun didn't set. But the most told story is the one of the king telling the sun to not set. Same happens in investing; popular stories are a part of information etc.

Every asset class has cycles, don't give anyone superior status (by over-deploying funds in high return asset classes). They will keep rotating.

Risk management should be such that it ensures survival.

If you invest in an asset class which is at its peak, the return rate can be very low overall as the asset class may correct heavily and then the growth may start.

This is Mr. Kalpen Parekh's portfolio

This may not give the highest return but it will not give sleepless nights. (**All this is through mutual funds. No direct stocks or bonds. Just Mutual Funds and that through DSP. Skin in the game**)

Don't tell me your view, show me your portfolio: Nassim Taleb

1. Indian Equity Funds (Free Cash Flow, High Quality Companies): **40%** *(Survivors)*
2. Indian Value (Energy & Commodity Companies) : **5%** *(High DY, Inflation Hedge)*
3. Global Funds : Gold Mining & Energy Companies : **12%** *(Hedge against loss of faith in paper assets and Central Banks)*
4. Short Term Debt Funds : **40%** *(Because markets have been expensive)*
5. Hedge Fund : **3%** *(Can short via Put options to defend tail risks)*

NO ONE KNOWS THE FUTURE – HENCE DIVERSIFY

IF you don't do SIP now, never do it. As you will be later buying only at high prices.

	L/S	SIP Return
Jan 2000 – Dec 2003	0%	13%
Jan 2008 – Feb 2014	0%	9%

It's a fight between Fundamentals vs Fed/Liquidity.

There could be recession or a rally, prepare your portfolio for both.

Investment behaviour, attitude sometimes becomes a barrier.

Questions

Boycott China – Can get serious, lot of countries very seriously talking. US take revenge in a serious way. Financial markets may see a lot of volatility due to policy and economic decisions. Indians also saying give up Chinese apps/mobiles, some is emotional, some may not happen. Our lives are fully integrated with global economies. Even our webinar is Cisco, Lenovo computer, Phone is IPhone. We are yet to achieve that manufacturing prowess. We should not talk trade barriers because if others close doors for us, we may face problems too. But trade wars and barriers may take reality.

At one point, excess liquidity will not result in extra returns.

Global funds should be seriously considered. But, understand risk and returns also.

DSP is more value focussed on US and hence less returns, they have lesser tech component.

US Stocks Contrasting Fact – Prices at top decile, fundamental at lowest decile.

Small cap and midcap stocks froth has gone away, opportunities are coming.

DSP Pharma – launched 1 year back when returns were bad. Focused on midcap Pharma which have Indian focused pharma as RoE in India is big but growth is small. It should be a secular sector as

Disclosure – This is not my information, it is DSP's. I have no right over this information. I have shared for study purpose, but nothing is a recommendation, do your own due diligence or consult your advisor before taking any financial decision.

Disclaimer