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Correct asset allocation is 90% of the game, have a foot in every major investible class: Shankar Sharma

BY AJAYA SHARMA, ET NOW | UPDATED: OCT 23, 2019, 05.21 PM IST

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Depending on how inclined you are, you must diversify away from a single country, single currency, single asset risk, says ***Shankar Sharma****, Vice Chairman & Jt. MD,* ***First Global****. Excerpts from an interview with ETNOW.*

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Efforts are not really that important if the results are there and whichever way you are taking. You are actually making a point that every bear cycle you survive and what is the success ratio?
No I made money, I did not survive. I made money.

They say that it depends on how well you navigate each bear cycle, how much money you end up saving and making and that sets you ahead of a very large number of people.
Profits earned in bear market or rather returns earned in a bear market are very valuable. If you are up 10%, the Street is down 30%. You can eat off that plus 40% swing for the next four-five years because in the market more or less all of us will get it right. Somebody will get plus 30%, somebody will get plus 25%. If you would have been complete idiot you might be plus 20% but nobody is going to be minus 10% in a bull market. So that is money in the bank, you just save that for the rainy day which will come inevitably.

So how are you reading the indicators right now -- be it profitability indictors of companies you look at closely, be it macro indicators, be it global.
My reading is very simple that it has become a very simple investing market. One of India's biggest problems that all foreign investors from the 90s since the FIIs started coming to India faced was that in most countries there are 15-20 stocks -- one telecom company, one real estate company, 4-5 banks. You don't have to choose, But in India, there are 10,000 companies. We keep making rounds of places from Kochi to Gurugram. Sometimes, you come across an auto ancillary company; sometimes a textile company, sometimes a shoe company. What a country!

So, we as brokers also used to have fun taking 5-5 years on a bewildering merry-go-round with all kinds of companies, good, bad and, ugly. Now you can see in this bear market and that is why bear markets are good because it is a disinfectant. All the ills which are being hidden by rising stock prices, comes out when suddenly the prices go down and you are left with your pledges out in the open and the reasons why you pledge them were to put some other business up as we have seen some corporate groups do. But because of the downturn, those businesses have collapsed.

So, it is disinfecting your entire corporate landscape in a brutal way. We have to face up to it but the result of that and the GST is that it is turning from a 10,000-company strong market to a barely 50-100 investable universe market, I mean you can call it good or bad, I am not making any judgment. But as a fund manager, it has made economy of scale far more possible than it has ever been in the last 30 years of my investing career.

More or less, all of us are going to cluster around the same companies. Raamdeo had gone into Manpasand. It may have worked out brilliantly but now he will think 1,000 times before going to a Manpasand. Us se better hai ki Hindustan Lever hi le lege jake 60 PE mein yaar kum se kum zero ka risk toh nahi hota hai. (Better to go for a 60 PE stock like Hindustan Lever where there is no fear of the company going to zero). So the market is forcing us to now concentrate on banking stocks. Earlier, there used to be a lot more banks.

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The PSU banks' share has been eroding. Even private sector banks shares are eroding. Now a handful of banks will keep getting those extra sort of market share gains, margin gains. It will be great for a very limited set of companies.

So if it is hard red on one side and green on the other, where do you see market? Has it become amber or light green or still near the dark red?
My view is that structurally things have changed for a handful of companies. The market share gain which otherwise they would have had to fight for everyday to get a saving customer or a CASA deposit, is coming on its own. Baki toh bahut mara mari hai sir aap kisi banker se jake pooch lo CASA lene ke liye toh jaan dena padta hai, aaj woh bank hi nahi raha, toh kahi jaiga deposit? (It is very tough these days for banks to grow CASA. Where are those banks? Where would you get the deposit?)

Among PMS investing audience, the investible surplus is slightly higher. The regulator is raising it from Rs 25 lakh to 50 lakh. There is a hypothesis which you had shared with me earlier, that there is a strong case why an affluent or slightly higher than retail investor should make a slice of their portfolio outside of India. There are very few opportunities here. How does it de-risk the overall portfolio strategy for investors in India?
My belief and learning is that correct asset allocation is virtually 90% of the game, no matter what you believe in. As a bottom-up stock pick, yes it is great; it is a great thrill to unearth multibaggers but it is a lot more efficient if you get your broad allocation right. For example, last five years in India if you look at the data, your Sensex or Nifty returns are about 7% CAGR. The fixed income return is 7.6%! With a Sharpe ratio, there is not contest, there is no comparison. If you got the allocation right, you are far better off. It is not about equity or debt or gold or real estate or domestic or local. You should have a foot in every major investible class and diversify overseas. I have done this now for a long time, for like two decades.

How did you build skill? You were originally an India centric fund manager?
Yes, because in 1998 we realised that if you go to Malaysia, Thailand or Singapore, those countries did not look like going bust. India looked like going bust. The moment you landed at the old airport, on wondered what is there in this country? So I decided to diversify and learn the brokerage business of those countries and research their stocks. It has been an absolute journey of learning and earning both. Even this year I have personally made 60% in US equities -- 60% up without really taking inordinate risk. I am an extremely conservative investor. So there is an absolute case. It is not an all or nothing thing, but between 10% and 40%, depending on how inclined you are, you must diversify away from a single country, single currency, single asset risk.

And that is what a great investor like Ray Dalio says, that no matter how good a single market is, it will go through troubles which will make you rethink. Japan till 1989 could walk on water and it has had a loss three decades since then. Many markets go through that. We should not believe that any one particular market is immune to the laws of cycles or laws of nature, it is not like that.

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