THE INVESTOR'S MIND WITH LARISSA FERNAND

Devina Mehra on conventional wisdom and standing apart

Larissa Fernand
Sep 01, 2023

I have known Devina for a number of years. And she has always come across as a very matter-of-fact and candid individual. There is a simplicity and genuineness to her that masks an extremely sharp mind, amazing clarity of thought, and a huge repository of knowledge.

I was unwell the day of our interaction, but I was so looking forward to this conversation that I chose not to reschedule.

I hope you enjoy her insights as much as I always do.

This is part of the series **The Investor's Mind with Larissa Fernand**, where I attempt to understand the behavioural traits and mindset of money managers.

Devina Mehra is the chairperson and managing director at First Global.
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It has been three decades since you quit Citibank – August 1993 – to get into equity research. Over this time, has there been anything you once believed that you no longer believe. And what has stayed constant?

As far as investing and formal securities research was concerned, it was a completely new field for me and for India itself.

I did have some understanding of companies and industries because I was a credit analyst in Citibank. This trained me to look for risk, because as a banker you do not participate in the upside, you only participate in the downside. This foundation helped because when it comes to equity, one tends to put on rosy spectacles.

When I started off, I did not have an indepth understanding or appreciation of the importance of discounted cash flows or return ratios. I would ask large foreign institutional clients to recommend books. It was a discovery period.
Later I learnt to grasp nuances, devise ratios of my own, comprehend the importance of mental discipline, understand biases, the random noise in decision making…

Is there any investing truth that you hold which is not very popular in the investing community?

- "Investing in your circle of competence" is an euphemism for your comfort zone, especially when you're managing other people's money.

How you manage your own money is your business. But if you're managing other people's money and your understanding is limited to just 2 to 3 sectors, investors will be held ransom to your limited expertise.

No theme lasts forever. No geography or asset class or sector outperforms always. To give an example, if you only understand FMCG and Banking, what will you do when there is a commodity upcycle?

- All the talk of high conviction is nonsense because people do not understand the concept of probabilities.

In life and in the markets, there are unknowns – known unknowns and unknown unknowns. And the outcome is a range of probabilities. That is why the quality of the decision making is not the same as the quality of the outcome.

The most successful companies which have made a lot of money - Amazon, Apple, Tesla – all came literally within hours of bankruptcy at one point in their history. So it is not that anybody buying it always made a good decision. Or someone who passed that opportunity necessarily made a mistake. Because at that time, the probability of them going bust might have been higher than the actual path they eventually embarked upon.

- There is a lot of talk around subjective issues such as brand value, quality of management etc.

Ultimately, all that should come through in the numbers. Where does the great brand value show up? In better market share? In pricing power? In margins on the balance sheet?

You seem to be very conscious of risk. In your life, do you like to take risk or are you risk averse?

The big risk was quitting my job in my twenties. There was no capital available at that time for start-ups. Neither was there any great hype around becoming an entrepreneur and leaving, what was then considered, a top job.

That would be the most risky decision I took.

I also took some unconventional decisions like going global. But it wasn't as if that was putting a great deal of my life on risk.

You've never been afraid of being outside the consensus. You've often said that you're very comfortable stepping out of your comfort zone. What is the quality that you hold that enables you to do so?

My inner strength.

I did not have friends in school till class IV or V. I was significantly younger than my classmates. At that age, even a few years gap matters a lot. And, I was a class topper.

So it probably never got ingrained in me to check whether something was acceptable to the group or what everyone else is doing. I got used to just thinking on my own, on what is logical and makes sense.

Maybe it was also my *pathan* roots. Somebody who made a documentary on *pathans* informed me that one of their characteristics is that it never occurs to them to bother what others think of their decisions. While I used to laugh about it, I think some of it came through to me.

You once said that you don't benchmark against someone else in investing or academics. You set your own pace. So how do you define and measure success?

In academics, it was whether I am doing my best. I should never at a later stage feel that the outcome was not good enough, because I did not try hard enough or work hard enough. If you don't benchmark, then you are not looking over your shoulder. In my undergrad, for example, I got 88% and the next highest was 78%. Maybe if I had benchmarked, the difference would not have been that much.

If I look at our PMS and the next best, the difference is just about as big. Managing people's money is a big responsibility. So one has to do their best and do better than the benchmark. And we can’t not look at the benchmark in that respect.

We had the PMS license for 20 years before we launched a product. I wanted to be sure that I could do a good job when somebody entrusts their hard-earned money to me. When I could say with reasonable amount of certainty that this is the type of outcome that can be expected. So it didn't bother me that everybody else has started, because my benchmark was vis-à-vis the investor and not what everybody else was doing.

On the other hand, I went global when nobody dreamt it could be done. Everyone I asked said that it can't be done. Nobody is going to listen to you. Who are you? Nobody knows you in the US or UK or Europe. That didn't bother me either.

So being first or coming much later is not the benchmark.

When you look at yourself as an investor, where do you fit it? Value? Growth? Risk Averse? How do you see yourself?

The risk part is very much high up there. It may not have been that high up when I was managing my own money, because there you can take more risk. But when you are managing money professionally, that's number one.

Investing is a loser’s game. Just read Charles Ellis. You will win only if you don't lose.

That is the cornerstone of our philosophy. We have about 7 to 8 steps in the whole process to ensure that the risk remains contained. In every stress test it has worked; the 2020 crash, where our global products went down only 8-10%, or the Russia-Ukraine war.

I do not believe in value-growth silos. No theme lasts forever. You cannot be in one silo, because that's going to do well for some time and not do well another time.

I reason things from first principles. Not take anything as conventional wisdom. When I started, capital asset pricing model and efficient markets, was being taught everywhere. But I said, let me look at the numbers. Does it come through? If markets are that efficient with no fresh information, why does the stock move 50% within a quarter? Was that price efficient, or is this price efficient? If I calculate beta for the stock in different time periods it comes out to be totally different. So what is the beta of the stock? What number should I use?

People ask me about FII flows and the market. I ask them if they looked at whether there is a correlation, let alone a causation, between FII flows and market movement. There is none.

I always look at data, not what everyone is talking about or what the narrative is. That's why I devised new ratios when I thought that things were not getting captured.

You say you don't blindly buy into conventional wisdom. Are there any investors you admire? Specific traits you admire?

Investors look at someone successful and want to copy that strategy. The real question to ask is that of all the people who used this strategy, what was the outcome? For example, a very risky strategy may result in 95% of the people going bust, but the remaining make 10x the money. Hardly anybody is left, but whoever is left has made out sized money. That doesn't mean following that strategy will get you there.

In investment literature, you come across insights that you incorporate, but never swallow anyone's philosophy wholesale. Many don't even check whether what they think the investor is doing is the same thing is what that investor is doing. People think that Warren Buffett just buys and holds. Whereas he sells almost majority of his holdings within 6 months or 2 years. Of all the hundreds of decisions he has taken, he says only a dozen have accounted for all his excess returns.

Also account for the time period and in which market the investor made money. The 80s and 90s were great times for the US market. Therefore, that compounding showed up for anybody who made a reasonable bet. During that time a certain type of companies did well. That doesn't mean that that type of company will always do well. Ben Graham is the saint of value investors who made almost all his money in an insurance company not in value stocks.

One category of books I really would consider as a kind of a guru for me is having to do with understanding the fallacies of your own mind. Authors such as Daniel Kahneman, Richard Thaler or books such as Invisible Gorilla.

Once you have understood the numbers part, it is very important to understand your own psychology and the pitfalls.

Talking of your own psychology and pitfalls, you have often spoken of things like luck, chance, affirmations, manifestation. How does it play out in your investing universe?

I believe in affirmations.

I believe in visualizing goals.

The biggest example of manifestation for me was acquiring the BSE card. Everyone told me not to even apply as the brokers' club of BSE would not give me that card. But I got that membership.

Everything in life and investing is a game of luck and skill. Where you were born accounts for so much of your life trajectory.

Investing is a game of luck and skill. Which is why every time you invest you must tell yourself that you could be wrong, because you don't know the future. That is why diversification works, because it mathematically improves your chances and ensures that your skill shows up in the final results. When you're not diversified, you are playing only luck, which might sometimes favour you.

When things go right, investors attribute it to skill. When things go wrong, "the market is rigged" or "my luck was bad". But in successes and failures, there is skill and luck.

You're incredibly successful. What keeps you grounded?

It never occurred to me to be any other way.

Money is definitely a good thing to have. But money is the input and output in this business.

The real thrill for me is in the learning. This is one of the very few careers in the world where 30 years on, you can still say you're learning every day. Getting to know something. Understanding something.

You don't know it all. You can't know it all.

Larissa Fernand is an investment specialist at Morningstar. You can follow her on Twitter.

This interview is part of the series *The Investor's Mind with Larissa Fernand* that looks beyond the analytical and investment acumen of seasoned money managers. Investment Specialist Larissa Fernand takes a peek at the psychological mindset needed to master money management.

Watch the video