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ETMarkets PMSTalk: How First Global turned Rs 1 crore to 2.57 crore in 3 yrs, Devina Mehra decodes

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Synopsis
In India, we went through a whole decade 2010 to 2020 of below-normal market returns. Rs.100 invested in 2010 went up to only Rs.230 in 10 years in contrast Rs 100 invested in 1980 went up to Rs.700 by the end of the decade.

The motivation for the book was my in-built instinct for both learning and then communicating that learning. I suppose it is the teaching genes of my parents were both academics.

"1 crore invested in our PMS has become 2.57 crores versus 1.87 crores in the index. And the returns came with lower volatility," says Devina Mehra, Founder, and chairperson of First Global.

In an interview with ETMarkets, Mehra said: "Key in international investing is that the leadership keeps changing terms of asset classes and countries - and you need a diversified portfolio and tactical relocation periodically" Edited excerpts:

Thanks for being part of the segment. Let's start with the performance of the First Global Fund – it has delivered over 30% return in 2023 compared to 21% seen for Nifty50 in the same period. Take us through the numbers.

Actually, we ended the year with 33.7% returns versus 21.3% for the Nifty 50, and with very strict risk controls.

For example, we limit our exposure to micro caps and small caps. Below Rs. 1000 crores market cap we do not even consider a stock and even exposure to stocks up to 5000 crores we will rarely go above 15-17%.

In addition, we have strict liquidity criteria so that we are always able to exit the stock.

The year 2024 also started on a strong note with benchmark indices hitting fresh record highs – but do you think the momentum will continue as we brace political and global volatility?

The market has been somewhat volatile in January.

However, the key lies not in trying to predict unpredictable short-term moves but first looking at history.

In India, we went through a whole decade 2010 to 2020 of below-normal market returns. Rs.100 invested in 2010 went up to only Rs.230 in 10 years in contrast Rs 100 invested in 1980 went up to Rs.700 by the end of the decade.

When the market gives such below-normal returns for an extended period, it creates room for a bull run which is what we have seen since the 2020 March Covid lows. Even since then, the returns have not been above average.

The risk of a crash becomes imminent when returns are above average or above the trend line which is not the case for mainstream indexes.

We have partly hedged out PMS portfolios and while there maybe hiccups, sideways moves and some corrections, the risk still remains in not being invested rather than being invested.

You had invested Rs 100 in 1980, you would now have around Rs 56,000. But if you had missed out on even ten best days in the market, this comes down by two-thirds. If you missed out on 30 best days, your returns come down by 90%. So, instead of Rs 56,000, you make a measly Rs 5,000.

My advice is that for whatever is your equity allocation remain invested but choose sectors, companies and market cap categories carefully.

You have shared interesting data on the show fund – if someone had invested Rs 1 crore in our PMS in February 2020 just before COVID-19, it would have become 2.57 crores and with lower volatility. How the fund can maximize gains and lower volatility?

Yes. 1 crore invested in our PMS has become 2.57 crores versus 1.87 crores in the index. And the returns came with lower volatility.

It is a myth that to get higher returns you have to take higher risks. Instead, you have to use a system. The playing field has changed, and you can't win playing by the old rules.

Most of the fund managers are still working the way it did in the 1990 and that is why most of them do not outperform.

Earlier the fund manager could have an information advantage by meeting companies but now by law, across the world, everyone has the same data.

The key has become the ability to analyse tons of data and to make decisions across securities on the same, consistent basis.

For that, you need a system that is bias-free and noise-free. Else, when human judgment comes in, bias and noise come in.

So we use a 'Human plus Machine' model where the human expertise has been coded into an Artificial Intelligence system which can then apply it consistently across the whole universe of stocks.

Fund managers say that information arbitrage is gone but still say that they would outperform which is a logical fallacy because then you are saying you are smarter than everyone else in the market consistently.

'Investing is a Loser's Game' and you can win only if you don't lose (big money).

The most common investment myth that is peddled day in and day out is that diversification is the enemy of high returns. In reality, concentrated portfolios are, more often than not, a recipe for disaster.

Any fund manager who professes to run deeply concentrated portfolios will do well for some time and then flame out.

But for diversification to work you need to have skill. Because what diversification does is reduce the role of luck and increase the role of skill**.** To outperform with a diversified portfolio you have to have skill. Just increasing the number of stocks will not do it.

How should one go about international investing in 2024? What will trouble more interest rates or slowdown in China?

Key in international investing is that the leadership keeps changing in terms of asset classes and countries - and you need a diversified portfolio and tactical reallocation periodically.

This is why we offer a global product investing in all geographies and all assets at an entry point of $10000. Normally, you will not be able to enter such a product for less than a million dollars.

It is a cause for me to get Indians to diversify their investments globally.

We have seen quite a bit of run-up in small & midcaps – do you think the music will continue in 2024 or it make sense to take some profit and allocate to largecaps?

This is an area where I will ask the viewers to be very cautious, especially companies below Rs 5000 crore market cap. I would also include IPOs in this list.

Small-cap indices were up between 45% and 53%, and micro-caps by 50% in 2023. So, that's where there is potentially a bubble forming. In IPOs too, all kinds of companies have been raising money.

A reminder especially to new investors: Small cap indexes went down nearly 80% in 2008-09 and nearly two-thirds in 2018-19.

The falls can be that drastic and as percentages are not symmetrical, an 80% fall means that even after a 5-fold increase you will be at base zero.

Keep this in mind when you hear fund managers boasting of 50 and 60% compounded returns in the last 2 years.

In this space, when a stock falls at times you get no chance to exit and a whole lot of stocks just disappear into the great blue yonder.

What is your outlook on Gold and crude for 2024?

They are subject both to geopolitical changes as well as actual decisions taken by the cartel in the case of crude but overall, for now, we see these commodities range bound with a little bit of an upside bias.

Would like to point out that we think of gold as a safe commodity but the data shows that it can go through very long periods of not giving any Returns.

The gold price of the early 80's did not come back for a good 26 years and went down as much as 60% in the interim. Another high around 2012-13 came back after 8 years with a 40% drawdown in the middle.

While gold can form a part of your asset allocation it is no safer than any other asset. Earlier for Indians, gold was the only way to get a hedge against Rupee depreciation, but now Global investments are even otherwise possible.

You have shared an interesting article on the books you read recently – what are your recommendations for the year 2024? Incidentally, you are also working on your book – any sneak peek which you could give it our viewers?

My book is an encapsulation of all that I have learned about investing by being a practitioner of the craft from the time security analysis itself started in India three decades ago.

I have always been a first principle thinker and therefore questioned everything from the efficient market theory to whether you should invest into your circle of competence and so on. I've have done a lot of fundamental work in to even devising new financial ratios. All of that will be in the book.

The motivation for the book was my in-built instinct for both learning and then communicating that learning. I suppose it is the teaching genes of my parents who were both academics.