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Indian markets likely to surpass average

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Devina Mehra on why Indian investors should diversify globally, manage risks and look beyond familiar markets to build long-term wealth.



Devina Mehra, founder, chairperson and managing director of First Global

Devina Mehra, founder, chairperson and managing director of First Global, has been investing in international markets since 1999. At the Business Standard Smart Investor Arena, she spoke on investing in global markets and why it mattered. Edited excerpts:

First Global went international in 1999. How did you decide on this, and why?

In 1997-98, the currencies of Southeast Asian countries fell, followed by their markets. In one year, in dollar terms, those markets were down 50-90 per cent. Taiwan fell 50 per cent, and Indonesia fell 90 per cent. That was a wakeup call of not putting all eggs in one basket. The other was simply that I was a learning junkie. We decided to go international. In 1999 we were not just the first Indian; we were the first Asian members of the London Stock Exchange other than the Japanese.

You were known for your call on Amazon at that time.

The whole of Wall Street was positive on Amazon up to the dotcom boom, and when the bust came they all turned negative. Our call on Amazon was a strong “buy”. Not one Wall

Street firm had that position. We looked only at the numbers. In the last quarter of 2000, Amazon had made \$220 million-240 million of cash. For the first time in its history, it was not in danger of going bust. Jeff Bezos sent us an email saying “thanks” for the support, because ours was the only “buy” on record.

You advocate Indians investing across the globe, not just the United States. Any comments?

Global investing is not something you should do as a knee-jerk because India has not given returns for the past two years. It has to be a certain part of your investment anyway. India is not even 3 per cent of global market cap. There is no logical reason why 90-100 per cent of your assets should be in India. And the rupee depreciates. On the day I started working if I had put ~1 lakh in the Indian markets, it would have become ~1.5 crore today. In global markets, it would have become ~6.8 crore. When I started working, the dollar was ~12; now it's nearly ~96.

Unfortunately, most people selling global products today are telling you that the market hasn't done well for two years, so put your money in my product. The last time this boom came was in 2021, with Nasdaq exchange-traded funds (ETFs) and funds. In 2022, the Nasdaq was down 32 per cent. People came to me and said: Now it's down 40 per cent, should I exit? I said, don't compound a bad “buy” with a bad “sell”. A stock down even 90 per cent can be a “sell”, but a major index down 40 per cent is almost never a “sell”.

Most people offering global investing have no expertise. Buying the 12 United States (US) stocks you know is not global investing. In our global funds, in the last round, we added Malaysia and Mexico, which are not even on anybody's radar. Global means global. No market does well forever.

How much should be the home-market bias in a portfolio Logically very little, because it is only 3 per cent of world market cap. I am 80-85 per cent global. But at least, over a period of time, have 30-40 per cent of your portfolio in global investing because otherwise the value of your rupee keeps depreciating. When you are saving for goals 10, 20, 30 years away, you cannot forget that. Our grandmothers were not wrong in buying gold because at that time gold was the only hard currency-denominated asset you could buy.

So gold lived up to its story?

No. In a liberalised world, gold is not the best thing to buy. Unlike its image of being a safe haven, it has been no safe haven. In 1980, gold reached a high in dollar terms. That high was not crossed for 27 long years, till 2007. The only reason the rupee chart of gold looks good is because it's a rupee-depreciation chart. In our multi-asset portfolios, gold and silver together are normally a single-digit allocation.

First you have to manage risk because investing is a loser's game. You play this game not to lose first. Book the small losses so that you don't take a big hit because percentages are not symmetrical. If something falls 50 per cent, it has to rise 100 per cent to get back.

Why has Europe stayed behind, and why is everybody now looking at it?

From the beginning of last year, we have been underweight the US and overweight Europe. Europe has been a laggard for about 20 years, even though in terms of return ratios it's not bad. Pockets in Europe are looking interesting from a longer-term point of view. As I said, no theme in investing lasts forever. That's the golden rule.

How do you look at artificial intelligence (AI) and semiconductors?

I have no doubt that the next book on financial bubbles will have a chapter on AI. This year, AI investment is supposed to be about 2 per cent of US gross domestic product (GDP). You have to go back 150 years to the railroads, and even then it was about 2.2 per cent of GDP. Investors lose much more money in successful technologies than in unsuccessful ones because in unsuccessful technologies the amount of investment going in is limited. Investors lost a lot of money in railroads, the internet, automobiles and aviation because of overinvestment and overvaluation. Already in AI, there is debt of a trillion dollars. Are you ever going to make economic rates of return on that money?

There's a slim book titled *A Short History of Financial Euphoria* by John Kenneth Galbraith. The pattern of bubbles is always the same. And AI investment is in fast-depreciating assets. A railroad that went bankrupt could be bought at 30 per cent of the cost and made viable. If AI goes bust, it may not even be of value one or two years later.

Semiconductors are the most volatile and cyclical industry in the world. If I am supplying capital equipment, I am essentially starting from zero every year. Micron and others have 70 per cent margins because companies in the AI business say we can't be left behind. All this is a sign of frenzy. It doesn't last forever.

Is there one ETF that gives exposure to the world?

One way is via Indian mutual funds, which I would not recommend because the mutual-fund limit is over. You are buying at a 20-30 per cent premium to the underlying assets, and the day the limit increases, your price will come down by that 30 per cent. You can open a global broking account and buy an ETF. But don't buy a US-only index ETF. Buy a global index ETF — MSCI has one, ACWI — which gives you exposure across the globe.

Should one just buy a global exchange-traded fund and sit quite?

If you want only passive investing, yes. I advocate active investing, and that's where my own money is. If you can get somebody skilled, do an active allocation. Otherwise do a passive allocation. Most GIFT City (Gujarat International Finance-Tec City) products I would not recommend. Most of them are down over six months and one year when no global market is really down.

Can one buy South Korean ETFs?

South Korea is oriented towards semiconductors, a highly volatile sector, so it is not something you can take a long-term bet on and say it will always do well.

How do you see the Indian markets from here?

My bet on global investing is not because I have a negative view on India. India has been about flat for two years. In the past, when the Indian markets have been flat for two years, the next year's returns have ranged between 5 per cent and 55 per cent, an average of about 25 per cent. I never give a one-year projection. But in terms of probability, they are more likely to do better than average.

Sentiment is a contra-indicator. When money making appears easy, as in 2024, the next-period returns will probably be below normal. When your head is screaming "stop the systematic investment plan", get out of the market, the next-period returns are going to be above normal in probability terms.

Sector by sector, we are not at extreme highs anywhere. In many cases we are below average, in some slightly above. Put together, the next-period returns should be better.

But nobody can tell you what will happen in one year. So do asset allocation. Even if you are 25, never have 100 per cent in equity. Have money there you do not need for seven to eight years, and don't keep tinkering with the allocation.

Rakesh Jhunjhunwala's superpower was not stock-picking. He realised that equity returns were extremely lumpy and you have to live through long periods of pain. From 1994 to 2003, the net movement in the market was zero for nine years, and then it went up six times in four and a half years. That's the nature of equity markets.