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ETMarkets Smart Talk: Message to investors – Don’t look for illusive multibagger in FY24 but focus on asset allocation: Devina Mehra

Synopsis
It was the very worst year in over 200 years in US bond history. For both US equities and bonds being down had happened only for 1 year in the Great Depression (1931), 1 year in World War 2 (1941), once in 1969 and then this was the first time in 50 years that this happened.

Admit your mistakes and get out of them as quickly as possible... So that you can move to better opportunities.

“FY24 looks as if it will be a better year than the previous year for both the Global and the Indian markets as terrible years normally don't repeat back-to-back,” says Devina Mehra, Founder, chairperson, and Managing Director at First Global.

In an interview with ETMarkets, Mehra, said: “It bears repetition that 85 to 90% of your returns are determined by your asset allocation including asset classes, geographies sectors, etc. Therefore, rather than looking for the illusive multibagger, first ensure that your asset allocation is right” Edited excerpts:

What will lead to investment Nirvana in FY24? You suggested in one of your tweets that buying stocks of companies with large market shares & established brands might not help investors. If you can take us through that thread?

Investment Nirvana is always hard to come by because there is no one answer that lasts forever.

Where we sit today, looking back calendar 2022 was one of the worst years ever in the Global Investments business - even on a one-century basis!

It was the very worst year in over 200 years in US bond history. For both US equities and bonds being down had happened only for 1 year in the Great Depression (1931), 1 year in World War 2 (1941), once in 1969 and then this was the first time in 50 years that this happened.

Even globally, every single regional equity index was down; every single bond index was down.

The only assets which were up was energy and a few agricultural commodities. Not even other commodities like industrial metals and precious metals were up for the year.

So, I was clear in January that after such a disastrous year, it was extremely improbable that 2023 would be a down year.

As always, leadership changes and NASDAQ which was close to the bottom performing index last year did extremely well in the first quarter of 2023.

For now, our systems like some of the European countries plus India, Mexico and Taiwan among the emerging markets.

Within India, our biggest overweight bet for a year and half has been Industrials and Capital Goods where even after booking some profits we remain overweight.

Banking we are slightly overweight although we do not have much in non-banking financials. In this calendar year, we have added some stocks in Autos, Auto components, Pharmaceuticals, and a couple in Construction.

We would also be slightly overweight on IT. We maintain a well-diversified portfolio both in terms of sectors and stocks.

However, given the dynamic markets, it is difficult to say what would happen for a whole year and we re-examine all our views at least every quarter.

We do a zero-based allocation and answer the question that if we had cash today where we would be interested.

As for not blindly buying the monopoly or dominant market share businesses, I had done a full article for The Economic Times on this very issue.

We often conflate steady cash flow businesses with steady stocks whereas that is not the case and even companies with branded businesses and cash flows can underperform in the stock market for a long time.

I pointed out this history in 2020 when FMCG stocks were the flavor of the season, showing how even companies like Hindustan Unilever and Nestle had underperformed for even a decade at a time.

Once again, this has been on display for the last 2 years when these branded consumer companies have not done well.

But, it is not only the valuation or stock performance, it is also that large market share businesses can be quite vulnerable to disruption in technology and also that any new entrant tends to nibble away their share.

If there is a big disruption in the market, it is difficult for the large incumbent to be the driver for that as it hits their cash flows dramatically. So, disruptions tend to come from new players. A more detailed discussion is in the article link given above.

Click here for Part 1 of the interview - Devina Mehra shares her mantra for spotting stock market winners

You have talked about the gaming industry which is bigger than music, TV, and film combines. The 4 companies that are in the listed space are – Nazara, Zensar Tech, OnMobile, and Delta Corp. Do you think the story is relevant for these guys as well?

Of course this data was for the world not for India, and this is a global business. The other thing to remember is that just because an industry grows to a large size or even changes the world, it does not necessarily mean that investing in companies in that space will make you a lot of money.

In the last 100 years, automobiles and aviation have literally changed the world completely, but they have been a graveyard of many companies and stocks!

Plus, we have a bias towards being risk averse because investing is a Loser's Game and hence you first must ensure that you do not lose big or take a big hit on your capital.

So, we first manage risk rather than trying to maximize return on something that is high risk. Hence, we have not invested in the gaming space in India and have not looked at the companies very carefully.

But from what we have seen among these companies, only Delta Corp can be categorised as a true Gaming company.

OnMobile provides a cloud-based B2C gaming platform where margins are as low as 8-9% and RoE of 4-6%.

Zensar Tech is also not a true player in this space.

Nazara’s revenues from real money gaming is just 5% of revenues. Their focus is on eSports, Gamified Early learning. Financial results have also been quite volatile.

Under these circumstances, we are watching the space but do not intend to invest in the near future.

Do share a list of books that investors can go through in FY24?

The list of books to read is rather long and depends on how knowledgeable or sophisticated the investor is.

As for new entrants, they must first understand finance fundamentals before venturing in any further.

Plus, there are also books about businesses like those on Nike, Amazon etc. or about various successful investors and traders. Read all these but don't take anything as the gospel. Read with a critical eye, and adapt to what makes sense to you.

Books that I always recommend have to do with understanding your own thinking, particularly the pitfalls in your cognition as it is much easier to learn to crunch numbers but, more often than not, your mind trips you up in the markets.

Books in this category include:

‘Thinking Fast and Slow' by Daniel Kahneman, ‘Noise: A Flaw in Human Judgment' by Cass R. Sunstein, Daniel Kahneman, and Olivier Sibony, ‘The Invisible Gorilla: And Other Ways Our Intuitions Deceive Us' by Christopher Chabris & Daniel Simons, ‘Misbehaving: The Makings of Behavioral Economics' by Richard H. Thale’, etc. which I have been recommending for a while.

I have recently found a book which is easier to read and sets out all the biases in a simple non-academic way which is, ‘The Art Of Thinking Clearly: Better Thinking, Better Decisions' by Rolf Dobelli.

Your message to investors in FY24? What will the year be – good, bad, or ugly?

FY24 looks as if it will be a better year than the previous year for both the Global and the Indian markets as terrible years normally don't repeat back to back.

The message to investors-- the important thing is to know your asset allocation clearly and in an objective and focused manner to decide on a target asset allocation.

It bears repetition that 85 to 90% of your returns are determined by your asset allocation including asset classes, geographies, sectors, etc. Therefore, rather than looking for the illusive multibagger, first, ensure that your asset allocation is right.

Two, do not confine yourself to only the Indian market and look at Global diversification seriously. It is advisable to have at least 30-40% of your assets in global investments over a period of time.

Three, always focus on risk management as even for the best investors at least 30-40% of their decisions are wrong. Therefore, have adequate diversification, remain on the liquid end of the market, and always have stop losses.

Admit your mistakes and get out of them as quickly as possible... So that you can move to better opportunities.

Happy investing!