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Risk management should come before return maximisation: Devina Mehra

Synopsis
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Diversification is an important thing which every investor should look at that if you are doing investing even on your own only or you can do it yourself basis at least have 25-30 stocks and it is not just the number of stocks, it should be across sectors because I find too many professional fund managers also saying that I invest in my circle of competence which is really a euphemism for comfort zone," says Devina Mehra, First Global.

So in your years of investing and the experience and lessons that you have learned along the way, while you did give us a sense as to what the asset allocation should be, are there any hard don'ts in terms of investing or even in a market environment like this, certain companies that you believe one should really refrain from putting their money in, what would be your take?

Rather than talk about which specific companies today, I would say that risk management should be very central to whatever investing you are doing. I mean, certainly that is the way we do our portfolio and fund management which is that risk management comes before return maximisation. We always say that 60% of the fees you pay is for risk management and we use a whole lot of tools, including basic stuff like making sure there is adequate liquidity in the stock.

Especially in smallcaps, you see the liquidity when it is going up and then when it starts going down, all the doors close and you cannot exit.

Diversification is an important thing which every investor should look at . Even if you are doing investing even on your own only or on a Do-it-Yourself basis, at least have 25-30 stocks and it is not just the number of stocks, it should be across sectors because I find too many professional fund managers also saying that I invest in my circle of competence which is really a euphemism for comfort zone.

If I understand two or three sectors that is where I will invest and that becomes a problem because no theme runs forever. Even if it is a so-called steady business, even if you look at FMCG sector for instance, 2020 when it was flavour of the season, I had done a full TV interview on that, that if you look at the history even of FMCG, there have been long periods when the steadiest of companies underperform or give no returns at all. Bata gave zero returns for 15 years. Hindustan Lever from 1999 to 2010 hardly gave any returns. So, if you are in a few sectors, there might even be times when you do very well but that is not sensible or sustainable.

So, follow a system in a systematic basis, choose 25-30 stocks and even then some of them are going to be duds. Again, this is another thing you must remember that one of the smartest things you can do is that when you are investing, tell yourself I may be making a mistake because the best investors in the world, Warren Buffett and so on included, are not right let alone 100% of the time, even 80-90% of the time.

You are doing very well if you are right 60-65% of the time. So, some of the things you choose are going to be duds, so exit when the story you thought did not play out and especially if the price falls. We are very strict about stop loss limits because otherwise you can always tell yourself stories that this stock is different, I must wait it out and so on. So have risk management in place, choose carefully, systematically, having understood how financials work and so on and then if you are lucky, then out of those 25-30 stocks some of them may turn out to be multibaggers, but no one ever picks a portfolio of only multibaggers. So it is always a myth to ask somebody that which is going to be the next multibagger.

But one set of stocks which had been a big multibagger was the Adani Group of stocks but of late obviously we have seen a lot of volatility around it. But now with the recent news flow and the sentiment turning a tad bit more positive, would you be a buyer for Adani Group of stocks or even the PSU banking names because they had seen a bit of a negative reaction as well?

We follow an Artificial Intelligence and Machine Learning system as our base. So that system has rarely liked the Adani Group barring the cement stocks at times. I think we did hold Adani Ports also for a short time in the middle. So as part of our risk management system and the fact that in terms of financials, it was very difficult to justify the valuations, most of the other Adani names we have never bought and we still do not hold those. As far as the banks are concerned, after being very negative and with very low weight in banks right from 2020-2021 and from the middle of 2022, we went market weight in banks which because of price movement then became somewhat overweight and even before the Adani Group had recovered and I had said that the reaction on the PSU banks and banking in general, seems to be overdone because it had affected even banks which had no exposure to the group.

So, we have continued to hold the banks and we still continue to hold them. I think was a more of a temporary issue for the banking sector. I do not see an imminent danger from this angle. Of course, I mean, in banking, negative surprises hide somewhere or the other and may come out at some stage but at the moment we continue to be reasonably positive on banks.