# Shankar Sharma on what it takes to ace Dalal Street

His advice to investors: Follow a systematic process, buy a minimum of 20 or 25 stocks, and have a slavish devotion to risk management

**Rahul Oberoi** | Publish Date - July 28, 2021 / 12:56 PM IST

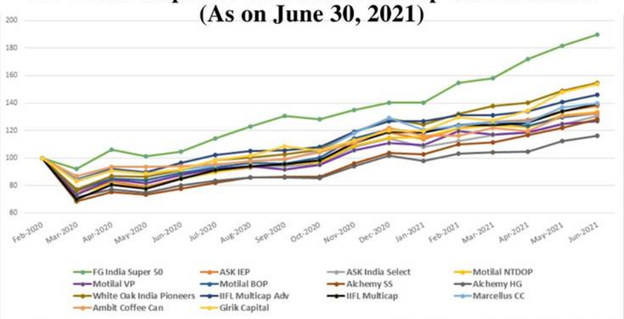

*Shankar Sharma is the co-founder and vice- chairman of First Global.*

Well-known stock picker and money manager Shankar Sharma is known to deliver robust alpha to his clients. Over the years, he has spotted several multibaggers which have delivered up to 200 times return. The co-founder and vice-chairman of First Global is widely followed by the investing community. This is also visible with over two lakh followers on Twitter. In an interaction with Money9, Sharma discussed his investment strategies and also said that sectors like chemicals, cement, steel, pharmaceuticals and technology appeal to him.

*Edited excerpts:*

**Sharma:** We are the best performing major multicap PMS (portfolio management services) in the country and the data shows it all. We have beaten the market with a substantial margin. But there are some crucial and notable aspects to keep in mind while looking at this performance: most people look at only returns while in reality investors should always ask whether their returns are coming as a result of high skill or high risk. A portfolio manager can take a very high-risk approach and deliver results for some time but it always ends badly when those momentum stocks collapse. Therefore, the correct question to ask is how much risk are you taking to deliver each unit of return.

**Comparative Performance of FG - India Super 50 Vs Other Multicap PMS Schemes (As on June 30, 2021)**




| Sr. No. | Multicap PMS Schemes | CYTD '2021 (Jan to June) | Total Return (Mar 1 '20 – June 30 '21) | Gain To Pain (x) (Mar 1 '20 – June 30 '21) |
|---|---|---|---|---|
| 1 | **First Global - India Super 50** | **35.21%** | **89.96%** | **4.72** |
| 2 | White Oak India Pioneers | 20.52% | 54.86% | 1.87 |
| 3 | Girik Capital | 27.92% | 53.63% | 2.02 |
| 4 | **Nifty 500** | **17.67%** | **48.16%** | **1.61** |
| 5 | IIFL Multicap Advantage | 15.41% | 46.23% | 2.25 |
| 6 | **Nifty 50** | **14.11%** | **42.44%** | **1.44** |
| 7 | Marcellus Consistent Compounders | 8.11% | 39.58% | 1.47 |
| 8 | IIFL Multicap | 17.05% | 39.53% | 1.24 |
| 9 | ASK IEP | 15.93% | 37.66% | 1.13 |
| 10 | ASK Growth | 18.91% | 37.15% | 1.20 |
| 11 | Axis Brand Equity | 11.52% | 35.36% | 1.17 |
| 12 | Motilal Oswal NTDOP | 16.42% | 33.73% | 1.18 |
| 13 | Motilal Oswal BOP | 9.21% | 32.39% | 1.13 |
| 14 | ASK India Select | 14.12% | 30.63% | 1.00 |
| 15 | Alchemy Select Stock | 23.67% | 28.25% | 0.97 |
| 16 | Moneylife Mass Prime | 10.01% | 23.88% | 0.96 |
| 17 | Axis core and satellite | 8.95% | 23.39% | 0.83 |
| 18 | Alchemy High Growth | 14.02% | 16.30% | 0.61 |

**Note: All data after fees. As reported on SEBI website. Not verified by SEBI**

*Source: First Global*

We have simplified this question in the gain to pain ratio which is a very interesting ratio. If you see the gain to pain ratio for us, it is nearly five times while the next best is less than half of ours. What is also extremely important to note is that in March 2020 which was the most brutal month markets have seen in 35 years, we managed to avoid most of the damage through to sharp risk management while all other portfolio management services companies were down between 30 and 40%!

This is what the crucial aspect of fund management is: how well do you protect in the down markets that come inevitably. Anybody can make some money in a bull market but the real test of fund management skills comes in sharp bear markets. The key aspect to note is that our performance comes as a result of our unique combinatorial model of investing which is the human plus machine.

**Q) Can you throw some light on your investment philosophy?**

**Sharma:** We have always been a very contrarian firm and our entire stock-picking philosophy has been to buy companies that are in trouble. That is why we have never bought even one single share of Hindustan Unilever or Nestle because that simply does not excite us!

We have a very crystal clear methodology for doing bottom-up stock picking:

A) Look for stocks that are trading at their lowest weight within their respective index.
B) Analyse their businesses thoroughly.
C) If a basic business has some merit but is going through some trouble, then put it on the watch list.
D) Wait patiently for some catalyst to come. Usually, this should be in the form of a great quarterly number particularly at the top line level of growth. Sales growth is usually not that simple to manipulate although it can be done, and therefore a

further confirmation of positive fundamental data.

Based on the very simple model of bottom-up stock picking, we have identified several massive winners including Apple in 2002, Amazon (2001), IndusInd Bank (2009), Twitter (2016), Netflix (2010) and speciality chemical firms in India (2013-14). All of these stocks have gone to make massive money.

**Q: What are the first signs you see in any bull market?**

**Sharma:** The first and usually the best sign which might be slightly early is the narrowing of the breadth of the market. If after a very strong period of returns, if the market leadership becomes polarised such that only a handful of companies are driving up the stock market while the majority of the market has gone into negative territory, that becomes a major red flag. This is exactly the phenomenon that happened in 2000 at the height of the technology bubble and exactly the same thing happened in 2007 end.

**Q: Can you list few stocks which have delivered robust returns to investors over the years?**

**Sharma:** As mentioned earlier, we have had massive winners globally. Amazon, Apple, Netflix , Domino's Pizza, Shopify all identified by us and became huge money-spinners. These stocks have delivered anything between 5 times to 200 times return on our investment.

**Q: What gives you the confidence to hold on to stocks that have turned into multibaggers?**

**Sharma:** We have a very systematic approach to identifying multibaggers. Once you have got a small position into them, we keep adding based on incremental data points. as long as the data points are supported we continue to remain in the stock. Just one bad quarter is not enough for us to exit. We need to understand why that quarter was bad and if the reasons are one time or cyclical. We stay in the position. However, if two quarters in a row are bad and management is unable to give any convincing analysis or reasoning, then it is time to start exiting.

**Q: What lessons have you picked up from your mistakes?**

**Sharma:** My biggest mistake was in 1998 when I looked at the valuations of Indian IT services companies and concluded that they were overpriced at 60 times earnings and I went and shorted them. I was wiped out because they kept going up and my losses kept multiplying. They finally traded at price-to-earnings multiples of 300 times within two years. That was my biggest mistake ever and the biggest learning I had was that never ever make investments based solely on valuation because that is a very subjective aspect of the stock market and in different times different valuation parameters will operate. After that, I have learnt not to pay too much attention to valuations.

**Q: What is your take on largecap, midcap and smallcap stocks? Do you think the party will continue?**

**Sharma:** I think the small and midcap party will continue because broadly speaking they have been in a market for the last several years. It is only in the last 12 months time that we have seen them come to life. There might be some correction that is absolutely required in any bull market but the ongoing rally will continue for at least one year if not more.

**Q: Which sectors or stocks are still looking attractive despite the ongoing rally?**

**Sharma:** We have like semiconductors globally as well as automobile retailers in America. Both have done phenomenally well for us. In India, we like chemicals, cement, steel, pharmaceuticals and technology.

**Q: How do you view the new-age but loss-making companies?**

**Sharma:** I think it is a great event in Indian stock market history for homegrown technology companies which might be loss-making but getting massive reception from the listed markets. Indian capital markets and now really mature and have become global in their thinking and approach to looking at loss-making technology companies. Otherwise, such companies would have been lost to overseas stock markets which will now list in their home markets which are their natural market. I do believe that out of the several listings that are in the pipeline 10 or 20% will go on to become big winners while most will not do very well in the secondary markets because the business models are not particularly innovative and have been driven mainly by loss making incentives for customers. The moment they reduced those incentives in order to curtail their losses their topline growth will disappear. That is going to be a cold problem for this entire list of companies.

**Sharma:** I find George Soros and Paul Tudor Jones to be the closest to my thought process.

**Q: How does your typical day look like and what are your hobbies?**

**Sharma:** I get up at about 8 am after going to sleep at around 12 midnight and I hit the working desk immediately. Barring breaks for meals and my gym, I work a minimum of 12 hours for day and on most weeks I am working six days a week if not more than that. On most days I do not regard my work as work, because I enjoy the challenges every single working day poses.

**Q: What would be your advice to investors?**

**Sharma:** Firstly, at the very least you should buy 20-25 stocks, after doing careful research. Secondly, Follow the bottom-up stock picking framework that I have mentioned earlier and by at least 5 or 8 stocks falling in that category. The balance you can buy good companies in good periods of their growth. Your multibaggers with coming out of this approach because at the end of one year or two years you will find between two and five of these original list have gone to become several times their price. Thirdly, Invest time, energy and effort in making a systematic process of investing and the most important aspect of investing is risk management. Most investors focus most of the time on returns while we focus most of our times on risk. If you avoid the big losses which are going to ruin various investing careers, you are going to become very very rich that much I can guarantee you.

Therefore follow a systematic process, buy a minimum of 20 or 25 stocks, and have a complete and total slavish devotion to risk management. By using these principles, you are going to become wealthy.



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