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Strictly limit your exposure in smallcaps, IPOs and microcaps: Devina Mehra

Synopsis

Devina Mehra say: “There are enough places in the market to make money. So, be cognisant of risk management. Smallcaps, IPOs, microcaps, the areas where there has been a lot of exuberance of late are exactly the areas where you have to be careful of and strictly limit your exposure.”

Devina Mehra, Founder & CMD, **First Global**, says “Investing is a Loser's Game. So, first you have to ensure that you do not lose big time and then the money will come. In terms of where we have reasonable PSU exposure has been banks where we shifted away this year from the private sector to PSU banks. We are heavily underweight banks overall which has again proved to be a good thing this year.”

If you were to just look back at 2023, there is conjecture out in the market that there is frenzy and FOMO and that is most evident in what is happening within the IPO space. Even if you were to dig out data, 2021 had more IPOs and raised much more money than what we have seen so far this year. Do you sense some sort of exuberance there?

Devina Mehra: Yes, definitely. In 2021, ET Now asked me, "If I put a gun to your head, which IPO will you buy in the so-called new-age tech companies?” and I said even with a gun to my head I would not buy any. So, too much mental space and everything else of the investor gets taken up by these IPOs. But that is not the place to be because IPOs, by definition, are mostly risky areas.

I was looking at some data in the 1990s, they were years when there were 1,100 IPOs and 1,300 IPOs and today, if you look at the whole listed universe which trades with some kind of regularity, it is just over 4,000 stocks. So, a whole lot of stocks just disappear into the great blue yonder. So, if at all you have to look at IPOs, it has to be a basket, but obviously as a retail investor there is no way you have any predictability of when you get allotment, so there is no way you will have a basket.

There are enough places in the market to make money. So, this is not something that you should spend any time or effort investing in. So, be cognisant of risk management. Smallcaps, IPOs, microcaps, the areas where there has been a lot of exuberance of late are exactly the areas where you have to be careful of and strictly limit your exposure.

Would that be the same prognosis for PSUs as well and the fancied ones, the star performers, defence, railway stocks across the board, power and its ancillaries? Where do you think the rally will last? What will be the strongest of them all and the fittest of them all where the rally would sustain next year too?

Devina Mehra: That is not a space we are heavily invested in. At times we have held defence PSUs and things like that. But again, our whole investing philosophy is to manage risk and therefore we are careful about participating in any frenzies and oftentimes many of these things go by newspaper headlines - that so much order goes to so and so and so on and so forth.

Like in projects, there are always delays, there is always how much money you actually make out of it because even if the project happens, almost always there is a cost overrun. So, how much of the hit is to be taken by the government, how much is to be taken by the company?

There are a lot of slips between the cup and the lip. So, those things one has to be careful of. Again, it is not that one should not look at that space, but do not have overexposure to that space. Investing is a Loser's game. So, first you have to ensure that you do not lose big time and then the money will come.

In terms of where we have reasonable PSU exposure has been banks where we shifted away this year from the private sector to PSU banks. We are heavily underweight banks overall which has again proved to be a good thing this year. But within that, we will be skewed a little towards PSU banks than we used to be.

Why would you do that and that does not mean a clear exit from private banks?

Devina Mehra: Well, I mean, banking is the highest weight in the index. If it was not the case, I probably would not even look at banking. I am a nervous investor in banks and lenders. And if you look at even the performance of banks, we were heavily underweight also in 2020 and 2021.

In 2020, banking was the only index in the negative. In 2021, it was up only half as much as the market. In 2022, about the end of the second quarter is when we went market weight in banks and that with price action at one point even became overweight and 2022, in the last four years has been the only year in which banks outperformed. The index was up 4.5% and the Bank Nifty was up 20% plus.

This year our systems started to signal it is not looking good, so we have been cutting back and this year also, the Bank Nifty was up about 9-10% as against the Nifty being up 15% and as I said banks have a lot of weightage in Nifty. You take out the banks and non-bank Nifty would have been up much more. NSE 500 up about 20% year-to-date.

So, it has been an underperformer and with banks basically it is a leveraged sector and sitting outside, you can never know where the negative surprises are hiding. This is a sector that always gives more negative than positive surprises. In 2022, the cycle was benign with the NPA cycle behind them and as interest rates went up in the beginning, banking margins went up. Those were some of the positives. Credit growth was also good. But now again, there are a lot of cautionary signs. So, yes, we are quite underweight banks.