Last Updated : Jul 11, 2020 10:27 AM IST | Source: Moneycontrol.com

Tactical asset allocation is the mantra of global investing: Shankar Sharma

We follow a tactical asset allocation approach in which we are not exposed to a single market or a single currency or a single asset we diversify to the best opportunities available at that point in time.

Kshitij Anand @kshanand

We follow a tactical asset allocation approach in which we are not exposed to a single market or a single currency or a single asset, and we diversify to the best opportunities available at that point in time. That is our central mantra, Shankar Sharma, co-founder a... an interview with Moneycontrol's Kshitij Anand.

Q) How important is Global Portfolio Diversification for investors? This is one theme that is fast catching up but it is hardly understood by investors. Some would probably buy a global ETF and feel that the job is done. But it is a complicated process – what would you advise to listeners?

A) Yes, this whole thin, ressed a

things to know before Opening Bell

Technical View: Nifty forms Shooting Star pattern, positional traders can hold short positions

The data is very clear -- if you would have invested $100 in the Sensex 10 years back, it is worth maybe $110 today which is virtually zero returns over 10 years period while globally it would have given you 2.5 times.

So the point is, it has to be a part of your portfolio to diversify out of a single country, single currency, single asset risk which is called SCCARS -- we call it SCCARS.

If you want to avoid SCCARS, you need to diversify, but it has to be done very, very intelligently and very, very selectively because just going and buying a NASDAQ ETF, is not the solution.

Why we say that is because NASDAQ has done well only in the last 12 or 18 months.

But, if you see the data, every year some different market outperforms. Last year, it was not NASDAQ, it was actually Russia which was up 48 percent while the NASDAQ was up only 30 percent.

MUST LISTEN

Coronavirus Essential | 20,000 people recovered in a single day in India; Zydus Cadila begins human trials for vaccine

The point is you have to have diversification. Just buying a single country ETF is going to lead you to bigger problems. What will happen if global equities tank, are you in US treasuries also which will gradually go up when global equities will tank.

The point to remember is that one has to be diversified globally across markets, across asset classes, across currencies, in order to have genuine diversification and you can't do it on your own, let's be very clear about it. It has taken us 25 years to understand this.

There are ways how diversification can be done, but definitely not just going and opening an account and trading foreign stocks or buying a single country Fee t give you diversification at all.

Tactical asset allocation is the mantra of global investing: Shankar...

Why investors should look to buy Mindtree

Policymakers need to pay attention to profits of businesses, not just...

Risk. Can help us understand this concept?

A) For example, you have got investments only in India whether you got real estate or you got equities or fixed deposits, etc. Now, suppose the rupee tanks and it has been falling for the last several years, right.

You have to be exposed to a world that is basically a dollarized world. Everywhere you go, the US dollar is a standard, and everything is measured against the US dollar as a standard.

You are exposed to only a single country, all your eggs are in one basket and that basket has some problem. It could be an economic recession, currency fall, etc. and there could be many problems that can happen in a country, and you are suddenly left with no leg to stand on.

Which comes to our next point -- we need to diversify out of a single country, single asset risk, go outside but do it correctly.

Q) You have two global funds that have been marked outperformers since inception. What is the strategy you are following?

A) So we have 2 fund products and by the way, these are all in-house managed because we have been in-house expertise and we have developed. It took us over 25 years of global investments to perfect these products.

I bought Amazon in 2001, Apple in 2002 personally speaking, and I bought Netflix in 2010. We have done this a long time. We've bought Chinese companies about four years back, so we have done this a long time.

Yes, we have also made mistakes, and we have learned from them. These products were launched about between one-and-five years back and there are thousands of Indian investors are now in these products as well as foreign investors, non-residents, foreign citizens. We have a total of more than half a billion dollars in these products now.

percent.

Under equities, the share of the US market is around 40 percent, and China is about 18 percent. We are also invested in Switzerland, the UK, Taiwan, South Korea, and Japan.

It's a diversified to the best opportunities in the world right now. We are not exposed only to NASDAQ.

If NASDAQ falls it doesn't matter. NASDAQ is not the only game in town, for example even this year Taiwan has done better than most of the US indexes

We follow a tactical asset allocation approach in which we are not exposed or overexposed to a single market or a single currency or a single asset we diversify to the best opportunities available at that point in time. That is our central mantra.

Q) In one of your interviews you highlighted thumb rules on investing. You said that 'If there is one God in investing, it is risk management'. I think apart from asset allocation, investors should pay attention to this rule as well. How to manage risk when the market has run ahead of fundamentals?

A) So I'll give you a live example, this year is the best year in ten years for anybody to understand the value of risk management.

We usually forget about these things but when markets are good we tend to say, this is all very, very vague stuff, why to bother about risk management, markets only go up all the time.

This year, the reality was slightly different. In our global portfolios as well as in our India PMSes, in the month of February, we made some change because there was enough evidence that there is some kind of problem building up.

When the markets recovered, we were back again into positive territory. So, both are global products and India products and now up for the year between 5 percent and 25 percent, up in a year in which markets are still down.

2020 -- is a great year. It's like a laboratory or more like a classroom where you've learned the lesson of risk management and that is the reason why in our global products we have delivered 21 percent CAGR in dollar terms over the last five years.

That is one of the major reasons that we avoid big falls. When you avoid the big falls and the markets are then running up, you participate. It comes down to something as simple as that.

It is not that simple to practice but it is at the core of it, it is what it is to avoid big mistakes, to avoid big losses, whether in India or globally.

But, if you've gotten into something which is giving you exposure across the world into different asset classes if one market falls don't matter, something else will compensate for it. That is the main establishment.

That is the meaning of global diversification. It is not just buying a single market, single ETF, single-country fund, and by the way, the other thing is important that a Feeder Fund, for example, doesn't manage the money themselves. They give it to somebody sitting in New York and London.

So, don't just go out and swing your bat, because swinging bat often make a six but often get you out very quickly as well.

Q) Small & midcaps have outperformed in the first six months – what is driving the rally in the broader markets and also the penny stocks which is seeing smart rally?

A) If you see, the smallcap index had a great 2017. And then everybody went into 2018 expecting a repeat.

We all know how terrible 2018 turned out to be for s outperform for the next few months. Which is exactly what is happening.

What also happened in the last three years is that any number of smallcap companies became extremely undervalued. Most had been delivering decent performance but the market was not interested.

So you had companies that were earning 20 percent on equity and trading at book value.

This kind of mispricing had to get corrected to some extent at some point and this is exactly what is happening right now.

***Disclaimer**: The views and investment tips expressed by experts on Moneycontrol.com are their own and not those of the website or its management. Moneycontrol.com advises users to check with certified experts before taking any investment decisions.*

First Published on Jul 11, 2020 08:40 am

TAGS #Currency #Diversification #ETF #Global Investing #Interview #Nasdaq #Risk Management #Sensex #Shankar Sharma

Last Updated : Jul 16, 2020 09:00 AM IST | Source: Moneycontrol.com

Why investors should look to buy Mindtree

There is little doubt that Mindtree will emerge as a strong long-term survivor perhaps post couple of soft quarters.

Madhuchanda Dey @moneycontrolcom

Madhuchanda Dey

Moneycontrol Research

Highlights

- Quarter saw the impact of Covid-19 on revenue

- Travel and hospitality the expected drag, top accou...

Tactical asset allocation is the mantra of global investing: Shankar...

Why investors should look to buy Mindtree

Policymakers need to pay attention to profits of businesses, not just...

verticals in better place

- Accumulate gradually on market correction

Ever since the takeover by the new management of Larsen & Toubro, the incremental performance of Mindtree (CMP: Rs 975, Market Cap: Rs 16,058 crore) has been reassuring thereby putting to rest concerns about a complete derailment of this promising mid-tier IT company. While Covid-19 had little impact on Mindtree's performance in Q4, the company had guided to a weak Q1 as the full impact of the worst impacted vertical of travel & hospitality (share of 17 percent in FY20) was felt for the first full quarter.

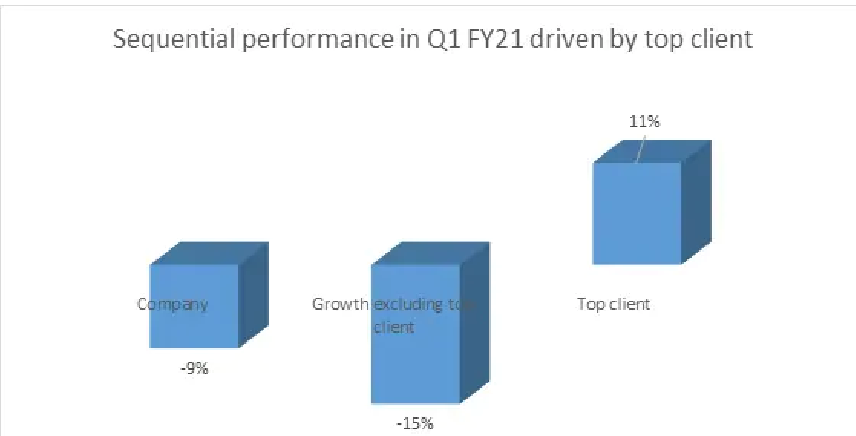
Thanks to the superlative performance of the top account, the damage to the company's overall performance was limited. But the disproportionate dependence on the top account does raise doubts about the vulnerability of the Mindtree model. While acknowledging the same, we also feel that Mindtree has built domain expertise in digital early in the race and remains a beneficiary of the new normal.

The stock has outperformed in the past three months with gains of 27 percent as against 18 percent of the Nifty. While the valuation at 15.3xFY22e earnings is similar to f[...] [...]e commands a

Big Story | RIL AGM: From Google deal to homegrown 5G, here are 10 key announcements made by Mukesh Ambani

Quarter at a glance

The quarterly revenue performance in Q1FY21 was prima facie disappointing with revenue at $253.2 million showing de-growth of 9 percent QoQ and 4.1 percent YoY. The decline was a combination of anaemic volume and sharp decline in pricing. While Communications Media and Technology (CMT) vertical reported strong sequential growth, BFSI (banking financial services) as well as retail CPG (consumer packaged goods) manufacturing (RCM) had a lacklustre show and revenue from travel and hospitality collapsed with a sequential de-growth of 55 percent.



Source: Company

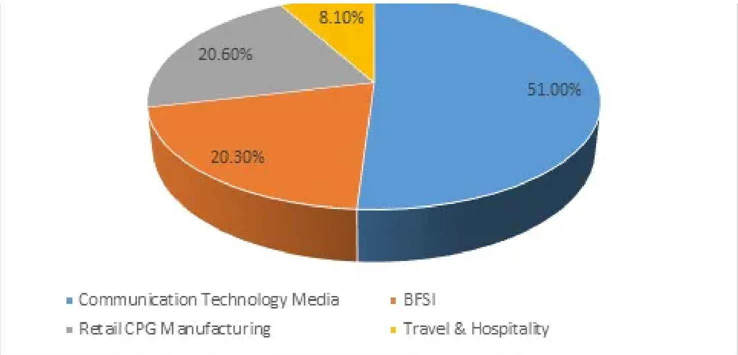
The performance in the quarter was driven largely by the top client (hitech account in the US) and it has a share of 30 percent in revenue – highest in the midcap IT universe.

In terms of geographies, all the geographies, namely US, Europe, rest of the world and India de-grew sequentially although US showed a YoY growth, thanks to the ramp up of the top client.

Operating margin showed a sequential improvement of 110 basis points to 18.2 percent thanks to operating efficiency (+ 30 bps) and currency tailwin

e of travel and

Tactical asset allocation is the mantra of global investing: Shankar...
Why investors should look to buy Mindtree
Policymakers need to pay attention to profits of businesses, not just...



Source: Company

While a part of the margin gain is owing to compression of expenses on account of lower revenue; close to one fourth of the gain is structural due to operational efficiency parameters and likely to sustain.

The highlight of the quarter was the record deal win of $ 391 mn in a very difficult quarter with strong trend of renewals.

($ million)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Total contract value	324	307	207	393	391
Renewal	248	186	128	206	315
New	76	121	79	87	76
Source: Company					

The new management is trying to rationalise tail accounts reflected in the decline in the $ 1 mn clients (sequential decline of 7 clients) and putting efforts to deep mine larger relationships. It added 6 new clients in the quarter.

The receivable position remains stable at 67 days (66 days in the previous quarter) and attrition has fallen to 16.6 percent from 17.4 percent in the previous quarter.

Is the business model too risky?

Mindtree has huge dependence on its top account at close to 30 percent of revenue that is growing at a very healthy pace. A technology client who is in the be at the

CMT and CPG businesses should benefit. It also feels that in terms of the adverse impact of Covid-19, Q1 FY21 was the worst quarter and it is expecting to see incremental improvement from hereon. The company has a digital ready workforce and is well prepared to address the demand.

Mindtree (Rs crore)	FY20	FY21e	FY22e
Revenue	7,764.3	8,270.7	9,097.8
EBIDTA	1,089.8	1,488.7	1,637.6
PAT	630.9	951.1	1,046.2
EPS (Rs)	38.3	57.8	63.6
P/E (X)	25.4	16.9	15.3
Source: Company. Moneycontrol Research			

OutlookThere is little doubt that Mindtree will emerge as a strong long-term survivor perhaps post couple of soft quarters. However, the valuation is not cheap as it trades at a multiple similar to large-cap peer like Infosys. While we do not expect significant multiple compression because of the liquidity support to the market with global Quantitative Easing (QE) and strong up cycle for technology sector, we feel a broad market correction could impact the stock and we therefore recommend a gradual accumulation taking advantage of every market decline.

First Published on Jul 16, 2020 08:48 am

TAGS #Business #Companies #Moneycontrol Research #Quarterly Earnings #Stock Recommendations

Last Updated : Jul 16, 2020 08:27 AM IST | Source: Moneycontrol.com

Policymakers need to pay attention to profits of businesses, not just sales

Perhaps the only way to increase business p

Sashi Sivramkrishna @@sashi31565

With the eyes and ears of economists and economic commentators glued to GDP growth rate figures, it is easy to overlook other critical macroeconomic parameters that could give us important insights into the condition of an economy. Decades ago, one economist identified one such parameter; the Polish economist Michal Kalecki developed the "profits view" that focused on the implications of aggregate profits of businesses on the macroeconomy.

Unfortunately, macroeconomists hardly engage in any sustained discussion over it and policymakers pay scant attention to it. While industry leaders, shareholders and stock market participants are concerned over corporate profits, they care more about individual companies than *aggregate* profits of businesses.

Although we do not have data on aggregate profits of businesses, one can easily infer from general reports that business profits will be adversely affected from the uncertainty unleashed by the seemingly unstoppable spread of the Covid-19 virus as well as the ensuing lockdowns necessitated by the epidemic. Last month, Reliance Industries, India's largest stock, announced a plunge in profits by almost 40 percent from a year earlier. The reports coming in of a sharp decline in profits of companies like TCS by 13 percent and D-Mart by some 88 percent in Q1 FY21 i

are expected to show a decline by about 15 percent in FY21. Furthermore, MSME and informal businesses are likely to

What are the various components of the economy that affect and are affected by this decline in aggregate profits? Kalecki's profits view helps answer these questions.

The profits equation

Michal Kalecki was considered one of the most distinguished economists of the 20th century. Many of his ideas were similar to those of Keynes and said to be conceived of before Keynes' theories. However, macroeconomists have chosen to ignore Kalecki's contributions even as economics, which purports to be a study of the free-market capitalism, has no theory of aggregate profits. The argument that a firm can increase its profits by cutting labour costs falls prey to the *fallacy of composition* because when all firms do so there would be large-scale reduction in total wages paid out, which in turn reduces spending by labour households and an overall shrinking of profits at the aggregate level. Similarly, the assertion that a firm can increase profits by cutting input or raw material costs fails to consider the impact of this on the revenues of other firms and as a consequence, on aggregate profits.

The crux of Kalecki's profits view was to identify the source of profits, not of a single firm, but at the aggregate level, i.e. of all businesses. His discovery was stark and simple but a revelation nonetheless. His simple model assumes there are no savings by households, foreign sector and government and furthermore there are no dividends paid to shareholders.

The economy is divided into two sectors, the consumer goods sector and the investment goods sector. The consumer goods sector's revenue is what the workers in the consumer goods sector spend plus what the workers in the investment goods sector spend on consumer goods. The profits or revenue less costs of the consumer goods sector would then be the revenue earned from the spending by investment goods sector workers. In the investment goods sector, the profits of these businesses are the revenue earned from the total amount of investment goods sold over and above the payment made to workers in th.. sector. To calculate the overall profits in the economy, the prof Meri Aashiqui - Meri Aash Jio ı a rather

When this model is expanded to include other components, the profits equation shows that aggregate profits of businesses would be gross investment spending minus depreciation plus inventory investments plus corporate taxes and dividends minus the savings of the non-business sector (households), the savings of the foreign sector (current account deficit) and finally savings of the government sector (taxes less spending). This is Kalecki's *general profits equation*. For the record, it is important to mention that Jerome Levy, businessman based in New York, had come up with a similar approach earlier so that the equation is often called the Kalecki-Levy Profits Equation.

An alternative view of the current crisis

Private sector investment spending is a key driver of economic growth, innovation and dynamism in capitalist economies. However, businesses are currently caught in a vicious circle. Unless profitability increases, investment may not and unless investment increases, profits will not. If this is the situation, the only way to get businesses to break out of this loop is to see whether other components of the Kalecki equation can be changed.

A major effect of the pandemic is the increased propensity to save due to people losing jobs, salary cuts and uncertainty over layoffs. Increased savings by households will act as a reduction in business profits and this is likely to worsen during the pandemic. It is important to point out that savings usually end up in stock markets and other physical and financial assets, which does not necessarily get converted into "real" investment, i.e. the key component to raise business profits.

On the external sector front, India is likely to face falling exports as well as falling imports due to lower GDP growth. The net effect is likely to be a balance in our current account.

A cursory analysis of the Kalecki profits equation shows that perhaps the only way to increase business profits at this juncture is to reduce government savings i.e. the government should run a deficit which is greater than the savings of the non-business sector.

predicament. However, restoring growth may not guarantee aggregate profits of businesses bouncing back. A deeper analysis of the interrelationships between the components of the Kalecki-Levy profits equation can yield important insights into macroeconomic crises and policies to overcome them.

Sashi Sivramkrishna is a Modern Money Theory (MMT) researcher, economic historian and documentary filmmaker. Views are personal. Twitter@sashi 31363

First Published on Jul 16, 2020 08:27 am

TAGS #GDP #Macroeconomy

Last Updated : Jul 16, 2020 08:22 AM IST | Source: Moneycontrol.com

DAILY VOICE: Ashish Chugh names 6 money-making themes for investors; smallcaps to outperform

What worries me is the reason many new investors have chosen to invest/trade in stocks - the nationwide lockdown, and people not having anything better to do at home

Kshitij Anand @kshanand

I believe India is a stock picker's paradise – one has to be nimble-footed with a flexible approach to investing & willing to have a diversified portfolio, **Ashish Chugh,** Director, Hidden Gems A dvisory told Moneycontrol, said in an interview with Moneycont

Tactical asset allocation is the mantra of global investing: Shankar...

Why investors should look to buy Mindtree

Policymakers need to pay attention to profits of businesses, not just...

lows. Do you think the market has the wings to go up further?

A) Yes, the markets have indeed seen a sharp run-up in the last 2 months. I think the market may take a breather, and consolidate. The numbers for the next 2 quarters for most companies are not going to be good, a fact well known.

I think some of this is already factored in, but I believe it is not fully factored in the stock prices. We may actually see a decline in many stocks when the numbers actually come in.

Ashish Chugh
Hidden Gems Advisory

DAILY VOICE: Ashish Chugh names 6 money-making themes for investors; smallcaps to outperform

I follow 3 'Q' approach: Quality of business, management & balance sheet, says Ashish Chugh

10 years later, here are 4 lessons from Lehman's collapse

Such times can actually provide opportunities to deploy cash.

I feel we are in some kind of a trading market currently, where there is stock & sector rotation. The stocks are currently playing a catch-up rally.

This kind of market provides an opportunity for portfolio rejig – getting rid of the duds, and junk & align the portfolio to long-term opportunities.

The number of stocks in single-digit PE multiples, and with dividend yields between 5 to 10% is one of the highest I have seen in many years.

Q) India has seen a new breed of "Robinhood" Traders with huge growth in Demat & Broking accounts. How do you look at this trend?

A) The number of new broking and Demat accounts ... ed surprised

However, what worries me is the reason many of such investors have chosen to invest/trade in stocks - the nationwide lockdown, and people not having anything better to do at home.

Many investors are first time investors & early success leads to complacency. That's the worry. One must understand the fact that the stock market is not an easy place to make money.

You may get lucky once or twice but not all the time. Markets may be volatile at times and money made quickly can go away more swiftly.

Many of these investors are merely chasing stock prices without much understanding of company fundamentals & valuations, which can end in pain. Many may end up losing money & gaining experience if they are not careful with their money.

The ideal thing for a new investor would be to go through a Mutual Fund or professional money manager while keep a small amount to venture directly and learn the nuances of the market.

Q) Which themes or stocks look good for investment?

A) I have always followed a bottoms-up approach to investing in stocks – however, would avoid talking about specific stocks here.

I believe India is a stock picker's paradise – one has to be nimble-footed with a flexible approach to investing & willing to have a diversified portfolio.

The selection of sectors & stocks is a very personalised thing, and should be aligned to one's own DNA aka – 'Temperament' as well as 'Risk Appetite'.

I think small-cap as space looks to be best placed where one can find growth opportunities at reasonable valuations.

There was a deep correction in small caps from January 2018 onwards and COVID-19, lock own, and the damage it did to businesses led to a further correctic Meri Aashiqui - Meri Aash & small caps

PSUs:

There are lots of PSUs, some being monopolies that are available at single digit PEs & dividend yields between 5 to 10%. Some of these companies fall into the Non-Discretionary category & many not get impacted much.

They are available below Book Value, much below their IPO price & near multi-year lows. However, from the valuations at which they are available, they are definitely not the flavour of the markets. Some of these provide good investment opportunities.

Rural Themes:

Rural markets are the ones that are less impacted due to lockdown & the initiatives of the government to increase farm incomes have led to revival of demand.

Some sector which could benefit are two-wheelers (look for ancillaries in this space), Building material, Asbestos Sheet, Fertilizers, Agrochemicals, Farm Machinery & Consumer Durables.

The effort should be to look out for reasonably priced growth companies & some of these may be worth considering post Q1 numbers.

Defence:

This is a space that offers exciting opportunities & our allocation to the sector could be significantly higher given the geopolitical factors. The obvious names are some of the PSUs which have staged a smart rally of late.

However, there are many smaller ancillaries having their own niches in the space. Some of these could provide good opportunities

China Import Replacement Theme:

Atmanirbhar Bharat may see the resurgence of indu… …sed to come

Knowledge-Based companies where India has an Advantage due to Intellectual Capital –

Software & Pharma could be sectors that are less impacted due to lockdown because of COVID. There would be lots of opportunities here but one needs to know his company well, be mindful of valuations & momentum in some of the stocks since most of the pharma stocks have seen a major run-up in the last 2 months.

Though long term potential is good, buy on declines would be a better idea since not all of them make drugs for treating COVID & June quarter numbers may cause a correction in many.

Debt Restructuring/ NCLT Cases:

The IBC Amendment Ordinance 2020 which was introduced for default after lockdown declaration has come as a breather for many companies that were facing difficult times.

Many of such companies may be able to negotiate with the banks and restructure their loans. Some of them can multiply wealth.

However, deep research capabilities would be needed in such cases since many would be high risk bets and can potentially be write-offs.

First Published on Jul 16, 2020 08:22 am

TAGS #Ashish Chugh #Interview #Market Edge #MARKET OUTLOOK #Portfolio Strategy #Robinhood Traders #Value Investing

Tactical asset allocation is the mantra of global investing: Shankar...

Why investors should look to buy Mindtree

Policymakers need to pay attention to profits of businesses, not just...