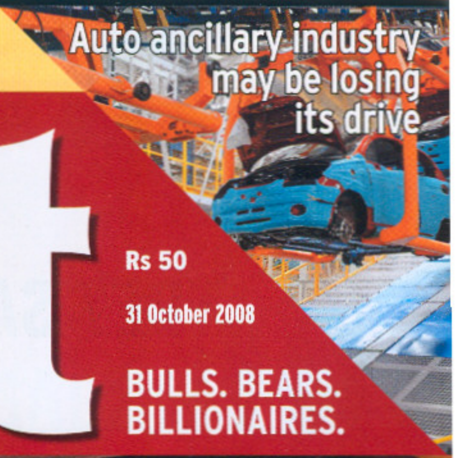
Style Quotient: Anoop Bhaskar on valuations



Auto ancillary industry may be losing its drive

OUTLOOK Profit

Rs 50

31 October 2008

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GRIN & BEAR

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Devina Mehra & Shankar Sharma of First Global

Profit Special
Domestic banks to survive the storm

Profit Call
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Momentum
Cash-rich stocks now going cheap

Shankar Sharma and his wife Devina Mehra, co-founders of First Global

SANJIT KUNDU

The first edge

The First Global duo talk on why the markets would take a long time to find their way out of the woods

N Mahalakshmi & Rajesh Padmashali

They predicted at the start of the year that the Sensex would fall to 10,000. It did. It's not the first time that First Global's Shankar Sharma and Devina Mehra have got it right. In the fast-moving world of equity markets where most investors frequently travel in herds, this husband-wife team prefers treading the lonely path of contrarian calls. An approach that even led to a face-off with the regulator and the government when Shankar Sharma and his company were accused of triggering a market crash in March 2001.

Yet the couple has been remarkably successful in carving a niche for themselves. First Global is probably the only Indian institutional equities firm with a strong research focus on global markets. Their organisation's proprietary models almost seem to contain a 'secret sauce' capable of blending all the ingredients to make that right call.

Central to the couple's philosophy is the law of averages which, in technical parlance, is called reversion to mean. "You can spin any fundamental story around your theory, but everything reverts back to its long-term average," says the 43-year-old Sharma, who loves watching crime thrillers. The real edge in their research comes from looking at reams of data points across several years. "Getting a call right does need a fair amount of gut feel and intuition, but it would still amount to little if not substantiated by experience and tangible evidence," adds Sharma, who runs a full-service securities house, servicing primarily institutional clients across the US, UK, Europe and India. Mehra seconds that view, saying they have data and solid research to back every view they hold. The rally in gold, for instance, to them is a catch-up rally to make up for its underperformance for many years; it's the same story for oil.

Stories about peak oil and demand growth are simply stories not substantiated by evidence on the ground – global demand growth, for instance, is barely 20 basis points above 20-year averages, she says, and world oil reserves if anything are at the higher end of the historic average. Early in the year, that view would have been scoffed at; now the couple stands vindicated as an army of analysts, including Goldman Sachs, that predicted oil at $200 until a few months ago are revising their estimates to as low as $50 a barrel primarily because of a global recession.

Sharma says they knew a recession was coming. "If you couldn't figure out that a recession would set in until two months ago, too bad," he shrugs.

Despite his dire — and frequently acerbic — pronouncements, Sharma objects to being labelled a bear. "I get paid for being realistic, not bullish or bearish," he retorts after Outlook Profit called him the Big Bear in an interview in April.

Love it or hate it, despite all his in-your-face comments and strong beliefs, it can't be denied he is pragmatic. "Markets change and I change my opinion too," he says. Neither Sharma nor Mehra believe in the idea of investing for the long term in equity markets. "It is like an immense large puzzle which is being thrown at you everyday. The great thing about this is that you are constantly learning - that is what I was looking for in my career, I mean what is the thing that will pay me for learning? There is no other business where you can spend so much time and still say that there is lot more to learn," says Mehra. No wonder then that the duo has debunked the widely-held view of India being an asset class in its own right. They argue that in the past few years, it was buoyant global economic growth that really provided a puff of wind to the Indian economy. Equity markets here simply followed the boom in global markets. When that cycle reverses – the duo had predicted this would happen in the year – the markets would experience a similar reversal and the Sensex would fall sharply to 10,000. That was then. Now the benchmark index is doing just that.

For Outlook Profit, the timing was just about perfect to do a follow-up interview to find out the direction the research compass of First Global is pointing to. In a free-wheeling three-hour interview the couple talked about how they got it right, the anecdotal and quantitative evidence that continues to shape their thinking and views on India and the world. ◻

WHY THE LOCAL MARKETS HAD TO TAKE A BREATHER

- Declining breadth in frontline indices, midcaps had tired out in mid-2006.
- Frothy IPO pipeline meant that sophisticated investors were losing their sophistication.
- There had to be reversion to mean in terms of market returns to 16-17 per cent.

Around September 2007 you were still saying that markets could reach between 25,000 and 30,000 in the next one year, but you turned sharply negative in a couple of months after that. What made you change your mind?
SHANKAR: That time the government had slapped a ban on fresh P-note issuances, and the market was around 14,000. Our view was that it would definitely go much beyond 20,000 – markets can overshoot when there is a bull run. But a few months later, in December or so, we had turned negative because all signals pointed to a reversal. If you simply followed global events it was becoming clear that the situation was turning quite bad. In the beginning of this year, our view was the rupee would begin to weaken. And from that perspective the Indian markets would become less attractive to foreigners, because till then they could count on the appreciating rupee for an additional 4-6 per cent, on top of an already-good return from the market.

Also, our view was that India's growth of 9-10 per cent was not really maintainable, because we are highly dependent on foreign capital. Another quantitative aspect was the declining breadth of the market, especially in the later part of 2007, when it was largely the Reliance pack, ICICI Bank and power stocks that were rallying. Mid-caps had actually started lagging the markets from late 2006 itself. The large caps gave the impression that they were looking good, but it had started hollowing out. The extended move can take you far beyond what logic dictates, but then you know that is a sucker move.

You told us in April, you expected a 1929-like depression in the US. How did you arrive at that conclusion?
DEVINA: Over a period of time, it was something we had tracked, the leverage had gone up tremendously for US banks. For example, if you looked at the Wall Street banks, their leverage had gone up at least 70-80 per cent or almost double in about five years or so, and that was a very big jump. Then, apart from the sub-prime, we also knew that there were a lot of off balance sheet items, a lot of derivatives, and also that the regulation was lax. So we knew that the problems below the surface would be much larger than what appeared on the surface. But to be honest if you had asked me a year ago whether all five top investment banks would cease to exist, I would have said there was a zero probability. But things have moved even faster, so it looks as if things could get much worse than in the 1930s. Because it's not just that we are looking back and saying that the 30s was a bad period – if you look at the statistics, nine of the ten largest single-day rises in the Dow, in percentage terms, were during that period. The bear market rallies are that sharp.

How do you see the US situation panning out now?
SHANKAR: It's difficult to say right now. There are arguments both ways – that some of the mistakes of the past (like monetary tightening) will not be repeated this time, so recovery could be faster. But one can also argue the other way – that the cure to problems that have been created by easy money can't be easier money. The jury is still out. But now it is a global problem – Europe is a bigger mess.

WHY COMMODITIES AT LARGE HAD TO CORRECT

- The breadth in the commodity rally had become abysmal…almost like the global equities rally in Jan-March 2000.
- Broad basket of commodities was down…Gold, silver, platinum; wheat, rice, orange, cocoa, coffee, cotton, oats, sugar, soya; copper, lead, aluminium, nickel, zinc, palladium.
- The rally on its last legs was led by energy (oil, natural gas, heating oil) and steel.

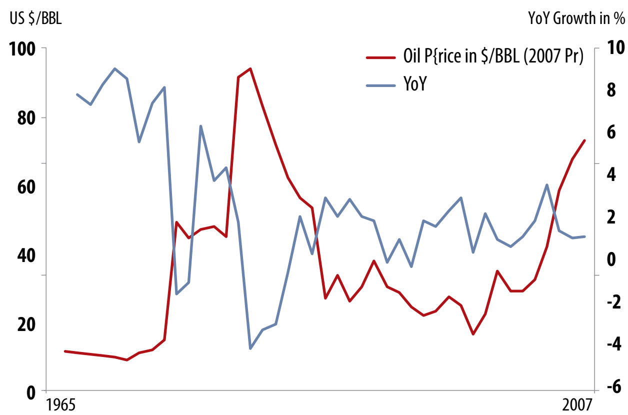
But despite the problem, investors are flocking to US treasuries. What do you think of the dollar?
DEVINA: The movement of the dollar and the state of the US economy are not necessarily connected. The dollar is stronger because other currencies are weaker. The dollar has no value of its own, only a derived value. If people think of the dollar as a weak currency, then the pound has been a disaster. Because of a strong US dollar, people may be inclined to buy US treasuries. Because on the 10-year running, you are getting 3.75 per cent and 3-4-5 per cent on the currency, which is totally 7-8 per cent. At least on paper it is AAA rated. At least for a year or so, I see the dollar as a stronger currency rather than a weaker currency.

You were ahead of time in figuring out the fall in oil too...
DEVINA: We did this analysis about four years ago – we looked at demand and supply for oil separately. We found that over the last five years the annual growth in demand was almost the same as in the last 20 years. And there was just a few basis points difference. In the last five years, the growth was 1.8 per cent as compared with the last 20-year average of 1.53 per cent, so there was a 27 basis point difference.

Then you look at the supply side – how many years (considering annual production) of reserves do you have? The range for the last 35-40 years has been between 30-43 years. So, at any point of time the known reserves were in the range of 30-43 years and it was 41 years. In fact it was at the higher end of the range. So there was nothing to show that the supply was constrained. So the fact is that for companies

THE SLIP WAS SHOWING

The rise in crude prices lagged global demand



it does not make sense prospecting for more than this range. You get the rights for that land for a particular period. So any given point you need reserves which give you visibility for 30-40 years, and then you stop there.

SHANKAR: Our view in general is that the market is nothing but a big mean reversion trade. So oil for the last 20 years from 1980-2003 had gone nowhere – it was in the range of 10-30 dollars and in real terms it has fallen by 90 per cent. So, at some point, the reversal trade had to come back to restore it to the long term trend. That happened because of great growth in the world economy. The fact is there is no great consumption, but there was a deviation which led to a far greater deviation in prices than what was warranted by a 20 basis points change in demand. That change of 7X in oil prices was only because it was correcting a long-term aberration.

You made a call on Chinese markets before that big upward breakout, what was the thought then?

SHANKAR: Again mean reversion. China's stock market had done nothing over the past ten years even when the economy had done so well – a big disconnect. In November 2005, the government announced steps to pep up the market. They opened it up, made it easier for foreigners to trade and a lot of other things. That was the catalyst required to kick-start the stock market. It had to play a big catch-up rally and that is precisely what it did.

It's a theory many propagate, but how do you know this is the point where the reversion to mean must occur?

SHANKAR: Good point. Let me give you an example. On India we have done this some four months back. You are looking at long-term returns on Indian equity which are around 16-17 per cent. And if you took the data up to 2007, you were probably around 4-5 per cent ahead of that range. And then you see that in the five years that we had till 2007, what was the aggregate return for that asset class for that period – it was north of 50 per cent annualised. Then you start to question things and start looking for signals. You could be a year ahead of this trend. But being a year ahead doesn't mean you press the sell button immediately. All it says is that you start being careful. That is good enough. Enough cues will come, fundamentally and technically, to time the trend.

How does the picture look now for the US markets?

SHANKAR: Our target was 10,000 at the beginning of the year based on certain dislocations. We were not forecasting large-scale closures of investment and mainstream banks. The newsflow is incrementally suggesting that there is still a downside to the trend rather than an upside right now. US equities, despite all the bad news, have actually outperformed other equity markets this year both in nominal terms as well dollar terms. If you are a foreign investor and you had invested in the dollar,

WHY CRUDE MIGHT NOT GO TO $200 IN A HURRY

- Hardly any correlation between annual changes in demand and the price of oil.
- Compounded demand growth over the last 20 years has been in a fairly tight cluster of 1.48 per cent to 1.81 per cent.
- China and India, combined, simply cannot make up for consumption slowdowns in the rest of the world, especially the US, Eurozone and Japan.

SANJIT KUNDU

> "If you looked at the Wall Street banks, their leverage had gone up at least 70-80 per cent in about five years or so."

WHY THE US SLUMP COULD LAST LONGER

- Jobless growth in the US – the world's largest economy in the boom years, could result in cascading unemployment during the current slowdown.
- Widening gap between the PPI & CPI suggesting loss of pricing power, thereby pointing to lower earnings going forward.
- Leveraged consumers could start defaulting on personal debt leading to further deterioration of asset quality of banks.

you were down only some 15-16 per cent, whereas emerging markets are down 50 per cent plus currency, which is another 20 per cent. Look at the wide disconnect between supposedly growth markets and non-growth markets. US will outperform from here on. But even while outperforming, US will seek lower levels. We think the market will break the October 2002 lows, which on S&P was about 750 or

WIDESPREAD

The difference between headline rates increased to its highest in over three decades in June this year in the US

Months, 2008	Headline PPI	Headline CPI	Spread between headline rates	Core PPI	Core CPI	Spread between core rates
January	7.4	4.3	3.1	2.4	2.5	-0.1
February	6.5	4.0	2.5	2.4	2.3	0.1
March	6.9(p)	4.0	2.9	2.7 (p)	2.4	0.3
April	6.5 (p)	3.9	2.6	3.0 (p)	2.3	0.7
May	7.2 (p)	4.2	3.0	3.0 (p)	2.3	0.7
June	9.2 (p)	5.0	4.2	3.0 (p)	2.4	0.6

Source: BLS & First Global P: Preliminary *Core values exclude food and energy

770. We suggest a good 20 per cent downside for the S&P. 2001-2002 was a garden variety recession – it was hardly anything compared to what we are seeing today. A few companies – dotcom ones – went down. Any time, we would swap that recession for this one! If the market was at that level then – now you have a gorilla-sized problem – there is no reason markets won't seek levels lower than those. And if the US goes down 20 per cent or thereabouts and the rest of the world underperforms, we are looking at a 30 per cent downside in emerging markets.

What could be profitable trades globally?
SHANKAR: As I mentioned, you look for areas of least damage. Gold can be a good bet, and will outperform other commodities. But it is still a small commodity to be able to replace the dollar (so we should not see a big move). Among currencies, the yen is the only good trade which will outperform the dollar clearly. The dollar was weak against all currencies but was pretty strong against the yen. Then the tide turned. Now the dollar is strong against everything else but is extremely weak against the yen. The Japanese currency, on the aggregate, may

SANJIT KUNDU

> "By December, $400 billion will go out of hedge funds. Of that a reasonable proportion would be in India, roughly 4–5 per cent."

be the best performing. In US equities, the technology sector should be an outperformer. In US equities we like tech stocks because they are all very global companies with a lot of cash. They don't need to raise money, and are benefited from a weak dollar. At the margin they might be hurt because of a strong dollar, but still we don't see a Microsoft falling off much from its $26-27 levels. In terms of their results and earnings also, that was the pack that actually delivered. So, again, it was not as if we were going to make 40 per cent by buying a Microsoft or an Oracle, it's just that the least bad option would be the technology space. Also techs are underowned and have been through an eight-year bear market.

WHY THE USD MAY WEATHER THE CURRENT TURMOIL

- No place to hide - US Treasuries has been the preferred place to hide during global turmoil.
- Euro looks shaky as the European Union struggles with economic slowdown and juggling straitjacket policies for diverse economies
- Central Banks have no credible alternative but to maintain status quo on their reserves, gold is too shallow an asset class to absorb a concerted incremental move.

What about the Indian market?
SHANKAR: Like I said, all emerging markets including India will fall. The US has been in an eight-year bear market, while India's chart is still up. The fall doesn't even show up yet. From 3,000, we are still up at 11,000.

If the IIP number is 1.1 per cent, clearly you know that companies are in trouble on the equity side. People have implemented and paid for projects that are ambitious in terms of their profitability. They are not going to make any money from these. They are not able to tie up equity financing, which means banks won't lend. Even FCCBs raised are not being converted. The bad news on the corporate front is more than that on the macroeconomic front.

The fact is India's economic boom was based on global liquidity coming into India. For markets to go up, fundamentals have to improve. The fundamentals improved because dollar rates were very low, people were seeking low IRR on their investment so they pushed a lot of capital into India. That, in turn, led to a strong stock market. We created growth out of it (cheap foreign capital) and if that money goes, but doesn't come in as much quantum, we will see a slowdown in growth.

Does decoupling ring a bell?
SHANKAR: We never subscribed to decoupling in the conventional sense. On the macro front, most economies are actually decoupled. India and China have grown phenomenally well, but Brazil has not grown anywhere close to us – more like half our rates. While the US has grown well, it is not close to other economies.

Within Europe, France and Germany have done very well, but Italy has lagged. Economic growths are not correlated, each one has its own peculiarity. But markets are fairly coupled. The corollary is that the economy and the market are not so correlated – that's what history also shows. In the US, from 1964 to the end of 1990s, in the first 17 years, the Dow did nothing. The second 17 years were very good for the market. GDP growth in the first 17 years was double that in the second period, but the markets were completely reverse.

Are you bearish on the rupee?
SHANKAR: Definitely. We think the lows of the rupee will not hold. I would think it can go even to 55 or so. Let's be clear that India will have to cut rates.

So what happens to inflation?
DEVINA: I am not a big fan of this money supply equals to inflation – that is proven statistically in many countries. There are many things which go in inflation. This is not the only thing. In the case of India, most of the inflation was commodity price led and had nothing to do with money supply. Right now again, the decline in inflation is not necessarily because of monetary tightening, but because of softening of commodity prices which are already down 50 per cent from their peak, although because of the depreciation of the rupee the impact will be limited.

What levels for the Sensex?
SHANKAR: It could well be 8,000-8,500, plus the currency. I am a firm believer that you can't just say that this price cannot materialise. JP Associates at Rs 75, ICICI Bank at Rs 450, Infosys at Rs 1,300, and eBay trading at 9 times earnings, who could have said that sometime back? So you can't rule out anything.

And also part of the correction at times happens through time rather than just price correction. For example, if the market remains at 8,500 for three years it is same as going down to 6,000. But the speed of the fall this time and the magnitude are worrisome. It is like a train going at full throttle. It's not being met with a lot of counter forces.

Where do you see fresh selling coming in now in the Indian markets?
SHANKAR: I think commodities; we are seeing that already. In fact, globally that is the big risk to the markets. Incrementally we don't think financials will lead the market down. It will be energy; it will be commodities, because those have become disproportionate part of every major index. So here you have RIL, which is 12-13 per cent, there is Tata Steel, SAIL. Those will be areas of maximum damage.

Is much of FII selling through or is there more to come?
SHANKAR: Hedge funds are facing huge redemptions. By December $400 billion will go out of hedge funds, of that a reasonable proportion would be in India, roughly 4–5 per cent. So India will see hedge fund redemptions, no doubt about that, because India also became an over-owned asset.

So what happens to all those petrodollars that were supposed to come to emerging markets?
SHANKAR: I don't know, were they supposed to? Petrodollars will either remain there or they will go to the west, they do not like emerging markets. The Sheikhs want to shake hands with Whites, it's a fact. Now, they have shaken hands and the hands have been taken away, so they will not be doing any of that. But at the very least they will be happier losing money in Citigroup than losing it with ICICI bank.

So will the bear market in India take two to three years to play out?
SHANKAR: Remember it's again a case of reverting to the mean. Two years is the bare minimum. After a compounding of 50 per cent-plus in five years, the market would have anyways taken a breather for a couple of years. It has stopped on the back of poor news, and it's not just about poor domestic news, it is a serious problem. Which is the reason why you'll see rate cuts across the world. Earlier central banks across the world were fighting growth and inflation, now it will be

the reverse which is no growth and deflation. Because commodity price deflation is very clear. Then you'll have demand destruction and then lower prices.

There is so much pessimism in the markets. Can it trigger a reversal?
SHANKAR: Where is the pessimism? October has been a big destroyer of confidence. I think until August people were really kind of hopeful. Bearish consensus is something we have to accept psychologically. But it doesn't mean that markets have to necessarily reverse because of that. On the contrary, I am very surprised by the swiftness of fall – this has been a 50 per cent fall in nine months. A fall of this speed and magnitude is unprecedented and shows that the whole construct of the market is being broken down. It is very negative.

The most problematic thing this time, unlike 2000-2001, is that there is nowhere to hide. In the previous recession, you could make a lot of money in commodities towards end of 2001. Lot of old economy stocks had also started to rally strongly but tech was clouding them out. Internals were beginning to look good. This time there has been no room to hide. Almost everything has been decimated.

When the markets went really nowhere between 1992 & 2003, a lot of fund managers outperformed following stock selection. Can that strategy work in the next three years if there is a lull?
SHANKAR: That is what exactly we were doing back then, we were bottom-up stock pickers. You have to do that when the markets are in their infancy as not many sectors are formed and defined. So every sector will have one or two companies, I mean IT didn't even exist as a sector in 1996 in any meaningful way. A bottom-up strategy can work, but you have to know that you are still in a bear market. You got to be cognizant that beyond a point in time this value will not sustain, so then you have to exit. So if a good stock does 50 per cent in three months, then take your money and run because the macro is still not supportive of the trend continuing.

Every bull run needs a leader, where will the leadership come for the next leg-up?
Hard to make a guess, we are too early in the trade, closer to that we will get enough clues, today it is too hazardous to even talk about that.

Can you tell us how your investment strategy has evolved over time?
SHANKAR: There is a vast difference between when we started out and now. First of all, we have become very macro, not to say that we do not do detailed micro, we go down to details that very few firms do, very detailed balance sheet analysis. Now again there is no either or in investing, you should not be ever fixated to one perspective. Our job is to get it right, no matter how many things you have to figure out, its just that the bias will be more macro than micro, but we will go into the depth of companies, the quarterlies, the balance sheet, the receivables, debtors, cash flows, all those disciplines you never give up.

It is just that you add more discipline to your core discipline of understanding companies and businesses and that big macro discipline came in when we started analysing the whole world instead of analysing just India. That was the

SANJIT KUNDU

> "Sometimes the trade becomes good after the first price action has happened. You don't have to be the first guy to enter the trade. The trade gets better after one round of selling having been done. Then you are selling the next big rally in the market."

big change we started 7-8 years back and overtime kept improving upon, because we realised that just sitting in India, figuring out India is not enough. You had to get the larger picture right and that really sharpens the edge, so we have gone up from the bottoms-up to a bird's eye view of things, not to say that we don't do bottoms-up. But the real edge has come from understanding global macro. And in investing you have to simplify the processes, bottom-up complicates it. We always say, rather than look for the needle in the haystack, look for the haystack.

How much of what you do now comes from intuition?
SHANKAR: Quite a bit of it, but not the majority of it. Take the crude oil trade, for instance. When you looked at the data, it was clear that the trade was over at $140-145. So at that time we looked at the data and price action, then the last 5-10 per cent will be intuition, we cannot deny that. You just know that this trade is right. But remember, intuition is not going to come without your doing 15-20 years in the business, it is only a databank, it is about having a million experiences minute to minute, day to day. No matter how bright you are academically, in this business it does not necessarily ensure your success. It is an important requirement but not sufficient enough. You need a lot more than that, and experience... not that you just lived through the period, but you have learned from every single data point over this years, you made mistakes, you corrected it, but gut feel, yes, that is important.

So you mean once you know the ground realities you would wait for a price action before forging ahead with a trade?
SHANKAR: Sometimes the trade becomes good after the first price action has happened. You don't have to be the first guy to enter the trade. The trade gets better after one round of selling having been done. Then you are selling the next big rally in the market. It was like crude when it was sold off. The good trade in crude happened when it went to 110, then it rallied to 120-122. You lost the first 20 per cent – forget about it. At least you are clear that this trade is getting over. But let the price also prove your theory. For example, we downgraded Apple just about a month-and-half back. It was $160 then, now it is around $90-95. We think the trade is even better now because it will go down to $50. So you will make the same returns as if you had got in at $160. Now you are on surer ground and numbers will come through. It's fine to miss the first part of the move.

Long trade is something that everybody understands easily, but short is complex. Can you tell us how you do it?
SHANKAR: It is the most difficult thing, in my point of view, in this entire business of investing, because you are taking unlimited risk.

The stock can go up many times and you can get cleaned out. Again there the macro is very important to understand. Big short trades will be borne out of the big macro view, like when the technology bubble burst, you saw that technology had dominated everybody's portfolio; it became the outsized part of everybody's portfolio.

Biggest money loss will happen in the most outsized part of your portfolio, so you know logically that if markets were to fall, the most over-owned sectors will be the first to fall, it has to be under-owned and nobody has to sell. In fact, interesting data have come out that the stocks that have been beaten up the most over the last three months are the ones that have been most owned by the hedge funds globally. They have been hit the most, so that is where people have got big concentration of holdings.

WHAT'S IN STORE FOR OMCS/ SUGAR STOCKS

- Crude correction, coupled with a weak rupee, to slightly dilute the case for oil marketing companies (OMCs).
- Oil has to come to $50 for oil marketing companies, but the dollar may weaken to 56.
- With crude prices slipping, the case for ethanol has weakened. If crude continues to stay lower, sugar stocks will see a downtrend.

ON THE SELECTIVE BIAS ON AUTOS

- To benefit from government action on oil prices like a cut in fuel prices and lower interest rates.
- Top picks are Maruti and Hero Honda. Maruti to primarily benefit from a weak rupee, focus on exports, also stock valuations are back to 2006 levels.
- Leverage to spoil the show for Tata Motors and M&M.

WHY THE TIDE COULD TURN IN FAVOUR OF IT FIRMS

- Consolidation in the US financial sector to spawn huge IT integration opportunity.
- Further, the rupee is expected to stay lower.
- Higher earnings visibility and good amount of cash.
- Infosys and Satyam look good picks.

What worked for Warren Buffett is buy and hold. Do you think the strategy still works?
SHANKAR: To our mind it makes no sense, Warren Buffett is an aberration. I think he is plain lucky and he has also bought a lot of rubbish. In fact, he has bought Coke which has been a terrible trade for many years now; it's just that in that period of Coke's history it did very well. And again if you look at the percentage of his investments that have worked, and what has contributed to his networth, the performance is skewed.

Which is actually a negative, if I were an investor, I would look at my performance from that lens, if I am a trader I look at percentage winning trades, it's like an average. Buffett made money in Coke well after the Coke trade got over. In fact, Pepsi has been a huge outperformer relative to Coke. Same could be the case with Wells Fargo, it could have been a Citigroup also, how would you know that? When Al-Walid bought it in 1991, it was a great trade; he was up 2 or 3 times, but then he held on way too long and now it has come down below 1991 levels when he entered the stock.

Who are the investors you look up to in terms of style?
SHANKAR: There is no one in particular, we have learned a lot from Warren Buffett in our formative years. You have to pick up very many influences, you can't just rely on one, which basically means that you have to read a lot, pick up a lot of influences and out of that you have to create your own perfect model. There is no one perfect style, so you have to borrow from lot of them and formulate your own, but the formulation will take the better part of 20 years. Over the years, we have figured out that macro is more important than a bottom-up approach. □