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Do not confuse a bull market with a brain! It makes you look better than you are: Devina Mehra

Synopsis
"If you have a carefully chosen diversified portfolio, which means at least 25 stocks and keep it diversified not just in terms of number of stocks but in terms of sectors and carefully chosen through some method, then you can live with it."

One cannot be rigid, you cannot be married to a specific point of view in terms of sectors. Nothing does well always and so be flexible. Part of being a good investor is being flexible in terms of strategy and in terms of outlook and in terms of the sectors you look at or invest in, says ***Devina Mehra****, Chairperson & MD,* ***First Global****.*

What is the right hiding space right now because many believe that while the central bank may not increase rates in a hurry and will continue to support growth, sooner or later that will have a repercussion or a bearing on equity markets. Do you believe that one needs to now reduce exposure to equities as an asset class or not at all?

That could have been done a little bit in advance. I find that very often investors are chasing what has happened and not what is going to happen. For example, of late, as our India PMS has been doing phenomenally well, people are asking us why did we put money in global products also? Let me just bring everything back to India as your PMS here is doing so well. And the answer has always been that one has to get that balance right in terms of asset allocation. One cannot be chasing yesterday's story. That is always a problem.

This is statistically proven that when one is chasing the asset class or the sector or the market or whatever has done well of late, one will have subnormal returns.

My message for people who entered the market in the last year and a half is that do not confuse a bull market with brains! The bull market makes you look better than you are but if you have a carefully chosen diversified portfolio, which means at least 25 stocks - and keep it diversified not just terms of stocks, but also sectors and the stocks are carefully chosen through some method, then you can live with it. Of course, always account for the fact that you may be wrong. So have stop loss levels and all of that but do not be very reactive to what has just happened in the market.

From 1980 to 1990, Sensex had a 21% odd compounding. Next decade was 14.5%, then it was some 17% odd and then in the 2010 to 2020 decade it was only 8.5% or so. So we were far-far below trend and that is what created room for this runup to happen in the first place. Which is why the last time I had said that I do not see a big bear market coming because that big bull market has not taken place. I was calculating that even after this run up post the Covid lows, for 12 years we have compounded about 10.5%. So, it is not as if we have been compounding at 17-18%, let alone 20% plus.

One should have that kind of fear that all is over for now. So if one has chosen carefully, this is not necessarily the time to really cut down. One will have to review the portfolio and see whether one is in the right places and if so, if you have to live through a couple of months of not so great market, so be it. That is what being in the markets is all about. The last one year was not representative, let us just put it that way.

So what are the right spaces right now considering there is this big devil of inflation which is hurting growth

We, as a strategy, are always diversified. It is not as if any sector ever is going to have 20% weightage in our portfolio. So we are careful to diversify. As of now, IT services probably still remains our Number one sectoral bet which still does not mean that it is very high. Some other segments with technology are there. We continue to like segments like chemicals, some pharma and healthcare names selectively. Cement is another area where we will have something. But it is fairly diversified.

I do not think other than IT services, we have even double digit holding in any sub sector. I always say that people who come to us to manage their money that risk control is number one and returns are number two. Parts of risk control are all these things that it is well diversified, that you do not have too much concentration in any sector and this is something that the retail investors can also take away. That is how you have to do things.

Even when you are bullish on smallcaps, it is always cautiously bullish. Part of the risk control is to have only limited exposure to smallcaps or anywhere where liquidity can go away quickly. All through the run up, we have had that smallcap exposure but it is limited. All those risk control parameters are also equally important when one talks of portfolio management whether one is a whether one is a professional fund manager or someone managing their own portfolio.

Do you think it is important to run such a diversified portfolio because now we are not exactly in the early stage of the bull market?

It always has to be carefully chosen stocks and that is always the case. I am not saying that diversification means random diversification or you have exactly the index weights in each sector. Yes, the market has narrowed. Over time, we have also taken some specific largecap bets to balance that out but still diversification is key because not everything works all the time and one has to be alert and which is why we have the hare as our mascot. That is our aspiration because the hare has to be 360% vision, it looks all around and that is what we like to do. Our work is to monitor things closely and change the stance and change the portfolio composition as required.

One cannot be rigid, you cannot be married to a specific point of view in terms of sectors. Nothing does well always and so be flexible. Part of being a good investor is being flexible in terms of strategy and in terms of outlook and in terms of the sectors you look at or invest in.