# Don't want to lose money in the market? Shankar Sharma of First Global shares his 2 mantras



The stock market is not only a place to make money but also a great place to lose money. Intelligent, judicious portfolio construction by putting together a team of "20-25 players" with different styles can prevent erosion of wealth, Shankar Sharma**,** co-founder and vice-chairman, First Global, tells Moneycontrol's Kshitij Anand in an interview. Edited excerpts:

**Q) You have registered massive gains in the India Super50 scheme in August. What was your strategy when you entered August because July was a bumper month when the Nifty rallied more than 7 percent?**

A) August was a good month for us. We were up by about 8 percent compared to about 3-4 percent for the Nifty500 and July also we were up by about 8 percent, but on a year-to-date (YTD) basis we are up in double-digits, substantially ahead of the market, and substantially ahead of every single multi-cap PMS fund.

This is a result of managing money in a very different way, as compared to practically everybody else who is still very traditional in their approach.

They're still doing investment analysis and research. The way it was done back in the 1990s when the computing power as well as data was very, very limited.

We have completely re-engineered the process of investing. It was a big challenge for me to reinvent my own thinking.

The result that you're talking about in which we have beaten the market and the rest of the competition by a wide margin comes out of having re-engineered the entire approach to fund management.

**Q) In one of the tweets from First Global – you have highlighted "frog in the well" syndrome. What it is it all about?**

A) I made a presentation at an investor conference in Mumbai in October-November last year and I highlighted that Indian investors, by choosing to remain invested in India, have been basically made fools of because for 10 years Indian markets have given zero return in dollar terms.

This is the result of having a '*kue ka mendak*' syndrome or a frog in the well syndrome—where we have been told by all fund managers and advisers that India is the well, you are the frog and this is where you are supposed to live for the rest of your life from an investing perspective.

The point is that you should be positioned across different geographies and asset classes, which is what we give that we do India too.

India is our backyard. We have done this for such a long time. So when somebody gives you global and India exposure under one roof, you are really well-positioned. I'd always tell people don't think only India, don't think only global. We need to be in every place where money is supposed to be made.

**Q) What is your take on the US markets and which market or country according to you is hot right now?**

A) It is important to understand that the moment something becomes so hot that you have heard about it sitting in India that means that trade is running into trouble. This is your first sign.

So in the past two, three, four months everybody started talking about Tesla without having any clue about the company or its accounting or anything just because the price is going up.

You're suddenly discovering greatness in a company. And I've seen too many of these manias and absolute suspension of logic and common sense to start believing that these trends can last a long time.

In the last 10 days or so, Tesla is down nearly 30-40 percent from the peaks and even a stock like Apple fell 20-25 percent. Investing is not about going and buying another hot sector in another hot country. That is a recipe for disaster.

Sometime you will look very good, there's no denying that fact. It might look so good that you'll say that, "*yaa mai toh itna smart hoon, mujhe toh koi bhi fund manager–mereko beat nahi kar sakta hai*".

But, the reality is a little more complicated than that and the last 10 days have told us how quickly your capital and profits can evaporate buying volatile tech companies.

In our portfolios, tech is only about or rather the US is only about 44-45 percent, of which tech is barely 25 percent of the overall portfolio. The rest is diversified across home decoration companies, companies that make tractors, companies that make paint, companies that make mobile trailers.

We also have companies that have benefited because of COVID. Investing is about consistently taking singles over after over, ball after ball and at the end of your 50 overs, with a few good overs, you will suddenly be at 350, 400.

**Q) Building a portfolio is like assembling a cricket team. IPL is around the corner, what is your advice to investors?**

A) Exactly, so I've been a cricketer. All my analogies of investing are basically cricket driven. Investing is exactly like making a cricket team.

You start with a very wide basket of 50 players. Then over time, through the various tournaments and challenges et cetera et cetera, you keep winnowing down gradually, to be having around 15 to 20 players who of which 4, 5, 6.

You don't know at the start who will be a Virat Kohli or a Sachin Tendulkar. You have no idea. You have some basic idea but how they will perform in a test situation or in an ODI or Twenty-20, you have no idea.

Nobody knows who is going to be Virat Kohli till he becomes a Virat Kohli. It's the same in finding a multi-bagger.

Everybody says "tell me how to find a multibagger". I say you have no idea. You have 25 actual multibaggers and ultimately you will have two or three names which will give good returns if you are very, very good.

That goes on to become multibagger, balance will be average-to-bad. And then, like a good cricket or a captain, you will eliminate the bad ones rather than keep on justifying their inclusion in the team.

Investing and cricket only work on numbers. "*Run ban raha hai toh team mai raho, nahi toh phir kisi aur ke liye jagha khali karo*." Same is with the stocks.

As long as the numbers are there and the stock is delivering in returns, we are friends. Otherwise, for a certain period they don't, we are no longer friends. We're not enemies but we are no longer friends.

So and the other thing also is, in a cricket team, you cannot have only a certain kind of player. You can't have only big hitters right? Even in T20 you need strategic players, even though it's a 20 over game.

If everybody's just a wild hitter, you will suddenly find yourself that you lost five wickets at 10 runs and you're all out for like 80 or 90.

So you need to have a balance, irrespective of the format of the game, you still need to have a balanced team. Same thing is with the portfolio construction.

**Q) What are your checkpoints for investors to ensure they do not lose money in this market?**

A) So, how not to lose money should be your first and only mantra in the stock market because that is where most of us go wrong.

We believe that the stock market is only a place to make money. It's also a great place to lose money. And we know that. We have enough experience and data to show that probably it is the world's best place to lose money.

We need to prevent that from happening. And, there are ways to prevent that from happening. I've just mentioned that, through very intelligent judicious portfolio construction where you have managed to put together a team of say 20-25 players with different styles.

Depending on how the game is progressing, you can put a particular kind of player to work so if momentum is working, you have a few momentum, if momentum is not working, value is working, and you have a few of them.

Making these portfolio choices is where the heart and soul of investing lies. It is not about picking great winners. The great winners will come out of your process or creation of this portfolio. Once your process is right, your entire selection process is right, you will get a Virat Kohli, you will get a Sachin Tendulkar.

Second thing is, please be unemotional about this. Don't start a story, find your investing. Please do not do that. “Relationship isme mohabbat ka nahi, yeh relationship paise ka hai.”

Don’t start to book human beings who are managing companies irrespective of which company, whether it is HDFC Bank or Asian Paints or Jeff Bezos’ Amazon, whoever it is they're all mortals, they're all human beings.

Human beings can fail and they do fail. And we will get into trouble if we start to believe that some had supernatural powers.

These are the broad principles on which you will prevent great– huge losses. You won't go to the ICU, you might get a hit of it. But you'll be able to bat again. And then when the pitch eases out, you will be there to take the bowlers apart.