

Market edges lower, financials drag
Rupee ends at 74.11 second day i

NIFTY ▾	JSW Steel 306.80 (+0.31%)	Kotak Mahindra 1570.90 (+1.26%)	Larsen 934.50 (-4.92%)	M&M 5
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Market

Shankar Sharma's 4-point checklist on how to pick stocks for VC-type returns

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Sharma believes that the index is the game of manipulation wherein overhyped companies, because of high market cap, make their way into it.



It is possible to make venture capital-type returns in the stock market, says ace investor Shankar Sharma as he lists out four methods to pick up stocks.

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At a conference in 2016, Sharma, Vice-Chairman and Joint Managing Director of First Global had pointed out his mantra on how he picked stocks like Amazon, Apple and IndusInd Bank which gave him immense returns over the years.



First, Sharma said that a stock must be at a multi-year low. "We look at negative momentum where a stock has had negative momentum for years and not months," he said.

Second, the stock should be loss-making or near loss-making. "We have never wavered from our method of buying crashed companies at a cheaper price. So, we do not like profitable companies. You need to be consistent no matter what your method is," he said.

He believes that if a company has the potential to come out of trouble, the stock of that company could offer higher returns in the long term.

Third, the weight of stock within its own industry should be at the lowest ever

overhyped companies, because of high market cap, make their way into it and the companies which have actually slid in terms of market cap are removed from it. Usually, those are the tops and bottoms for most of those stocks. It is a game of bad selection but that is the way the indices work.

Sharma said he looked at it in a reverse way as he preferred a company which has the lowest weight it has ever occupied in its own sector. "If you see in retail Amazon was its all-time low weight. Apple in the hardware industry was and IndusInd Bank was not even in the reckoning as a meaningful bank back then," Sharma said.

The fourth criterion is to watch for 'just one spark' for the company. Explaining this Sharma said that the launch of iPod was a trigger for Apple and Jaguar Land Rover (JLR) for Tata Motors.

He added that management changes helped IndusInd Bank while and cash turnaround to Amazon.

"Stocks at all-time low and there is some spark that comes through, you have the making of a real, absolute, out of the park six," Sharma opined.