

Can a portfolio manager create a permanent bull market for your wealth?

Synopsis

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Many investors have lost the chance of a lifetime to make massive profits.

Can smart fund managers create a permanent **bull market** in your portfolio? We absolutely believe they can!

But first: Why is this question at all relevant? Well, it is very logical for you to think that markets have gone up a lot and, therefore, should you be investing right now or not?

Many big and small investors have thought exactly like this in the past several months! Of course, we have seen that the markets have kept on going up despite all the doubts and scepticism.

As a result of this hesitation, many investors have lost the chance of a lifetime to make massive profits, because their wealth management companies or portfolio management services failed to guide them on how to create a permanent bull market in their portfolios.

What is the solution, then?

Let's understand some key things first.

1. There is nothing called a bull market or a bear market. A bull market and a bear market co-exist at any point in time. What this means is that certain categories of investments will be in a bear market while at exactly the same time, certain categories will be in a bull market!

For example, in the last 10 years:

- Emerging markets were in a bear market while the US markets were in a bull market, despite both being equities!
- Overall, equities were in a bull market while commodities were in a bear market.
- The US dollar was in a bull market while emerging market currencies were in a bear market.
- In 2020, Indian IT & pharma stocks had a massive bull market, while simultaneously, Indian banking had a massive bear market (Bank Nifty was up just 1-2% for Calendar 2020!)

The point that we are trying to make is that of simultaneous bull markets and bear markets. They coexist. All the time.

It takes deep understanding of markets to figure this out. And exploit it.

2. Smart, proactive Asset & Sector Allocation, coupled with tight, tactical risk management can indeed create a permanent bull market for your wealth.

The question to ask here: is your investment manager or wealth advisor capable of understanding, and then exploiting these simultaneous bull markets and bear markets? Or are they just a one-trick, equity bull-market pony?

Also, the question to ask is: how good is your investment manager at the business of managing risk while continuing to generate returns.

To give you an example of what we did at First Global this year:

- In India, in February last year, we saw plenty of dangers looming up because of the virus. As a result, we immediately took protective action through our Tactical Insurance for Portfolio Protection Strategy: TIPP Tech. And by buying government treasuries.

The TIPP Tech saved our clients from a lot of damage in India as well as in the global stock markets. From that point onward, i.e., March-end, we remained fully invested, riding the entire bull market.

However, from October, we started to buy a matrix of Put options, via TIPP, again which was hedging different elements of our portfolio at different points in time. Therefore, we kept on capturing the upside that the markets gave us, without running the risk of big losses.

b. On the global side where there are far better risk management and investment options available, it is so easily possible to diversify beautifully across the world, into several uncorrelated asset classes, and individual stock positions, that one can escape big meltdowns: just the massive range of choices available: 13,000 stocks, 100s of fixed income assets and REITs, dozens of commodities (precious metals, industrial, strategic like Rare Earth), all, when combined together into a perfect portfolio symphony, can capture most of available upside, without endangering portfolio safety.

And one can hedge each security, as well as a basket, too! Just imagine the flexibility on offer globally!

See how we did it in 2020? We moved away from our large American technology stocks positioning around August last year and increased our positions in emerging markets and commodities.

As a result, we have had a very decent run even from the time that the NASDAQ became wobbly, with a flat-lining of major stocks like Amazon,

Netflix, Facebook, Microsoft (these stocks have done almost nothing since August 2020!)

This is because we have had commodities that have done very well. We have had Bitcoin, which has done very well, and we have had global REITS that have done very well.

Therefore, tactically, we left the ageing bull market in FAANG stocks and fully exploited the younger bull market building up in other asset classes.

Further, our portfolios have been extremely well-balanced, with our overlay of TIPP Tech. Therefore we kept on capturing most of the upside that was on offer across the world, without running the risk of suffering massive losses, should the market have fallen.

The way we do things at First Global, whether in our India PMS or Global PMS and Global Fund, is completely different from the rest: we are extremely vigilant at all points in time and we keep adding layers of protection of risk management, on an ongoing basis.

We always keep scanning the environment for durable shifts in trajectories of asset classes, sectors, countries. Then, by tactically hedging our portfolios, through a combination of TIPP Tech and Tightened Stop Losses, we almost ensure that even if there is a massive crash, we don't suffer massive losses as other PMS and funds routinely do. (Some losses can and will happen, of course. We are concerned only about big losses).

This creates sustainable portfolio returns, even if it means foregoing some extra upside, once in a while. Nobody minds that!

What should be your takeaway?

Simple: You just need to choose your investment manager or wealth adviser wisely and then leave the tactical aspects like asset classes and sectoral allocation, the risk management to that carefully chosen investment manager.

And only then can you enjoy the full benefits that the market offers. Your fund management & PMS service provider should be able to deliver this tactical risk management in order to smoothen out your portfolio returns by prevention of massive losses, thereby creating a near-permanent bull market in your portfolio.

If they can't ensure this, they don't deserve to manage your wealth. If your choice of investment manager is right, you have solved your problem. All that you need to do is ensure that your investment manager has the capabilities to navigate good markets as well as bad ones; that's all the analysis and research you need to do.

If this so-called liquidity-driven market collapses, is your investment manager or wealth adviser already aware of this risk and have they done adequate, proactive risk management and sectoral diversification?

Investing Heaven is possible: one can participate in all the bull markets that are happening in India and globally, while not running the risk of massive capital loss: that is what this business of investment & portfolio management is all about.

And to answer the question, the secret to creating a permanent bull market is nothing but smart proactive allocation, and risk management. That's what smart money managers do.

(Shankar Sharma is Vice Chairman & Joint MD, and Devina Mehra is Director & Chief Investment Strategist at First Global. Views are their own)

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