
Investment Outlook: Its all in **Your Mind**

PRESENTATION AT THE TV18-CNBC INVESTOR CAMP

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WHAT SHALL WE TALK ABOUT?

◆ **UNDERSTAND YOURSELF OBJECTIVELY**

- Investing is awareness + conviction
- Avoid the distractions

◆ **UNDERSTAND THE INVESTMENT LANDSCAPE**

- Focus on trends and cycles!
- Disaggregate the market

◆ **UNDERSTAND THE UNDERLYING INVESTMENT**

- Good businesses and Good people are rare!
- Always remember MARGIN OF SAFETY

◆ **BE DISCIPLINED**

- Asset Allocation
- Time Horizon
- Reasonable Expectations

◆ **FOLLOW BASIC PRINCIPLES AND STICK TO THEM!**

UNDERSTAND *YOURSELF*

" Above the senses is the mind.

Above the mind is the intellect.

Above that is the Ego

And above that is the Unmanifested Cause

Beyond that is Brahman..."

Objectively: How do you really make your decisions?

PLAY TO YOUR STRENGTHS

◆ SELF AWARENESS IS THE STARTING POINT

- Are you Rahul Dravid or Harbhajan Singh?
- Are you a impulsive shopper, a cautious shopper, a methodical shopper, an opportunistic shopper...
- Imagine Bobby Fisher playing Cricket or Michael Schumacher playing Chess!

◆ NATURE IS NOT CHAOTIC/ OPPORTUNISTIC

- Everything in Nature has its cycle: We act/dress differently as per Seasons, Age etc
- Our financial plan and asset allocations must mirror our internal-external reality
- Clarity of thought is the first step to success in life ... and the markets

◆ YOU MUST HAVE A CIRCLE OF COMPETENCE

- Your industry, your profession, your hobbies, your travels, your friends are your "CoC"
- Think about products/services that you spend on!

◆ EVERYONE IS NOT A BUSINESSMAN

- Why not hire professionals/gain work experience before setting sail?

INVESTING IS EASY IF YOU DO NOT GET DISTRACTED!

Market/ Sensex

- Your index is important not the market
- Sensex flat between 1992 - 2003
- Significant wealth creation has occurred

Macroeconomics

- Budgets, Interest rates, Currencies, Oil prices, Politics.. do not alter basic competitiveness

Media & Intermediaries

- Have their own compulsions
- Caveat Emptor!

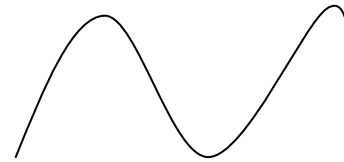
ALWAYS Think of Cycles!

Nature is cyclical, not linear!

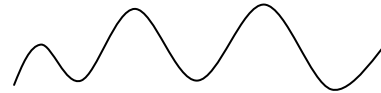
◆ Life Cycles



◆ Seasonality



◆ Business Cycles / Boom-Bust



◆ Innovation / Schumpeter



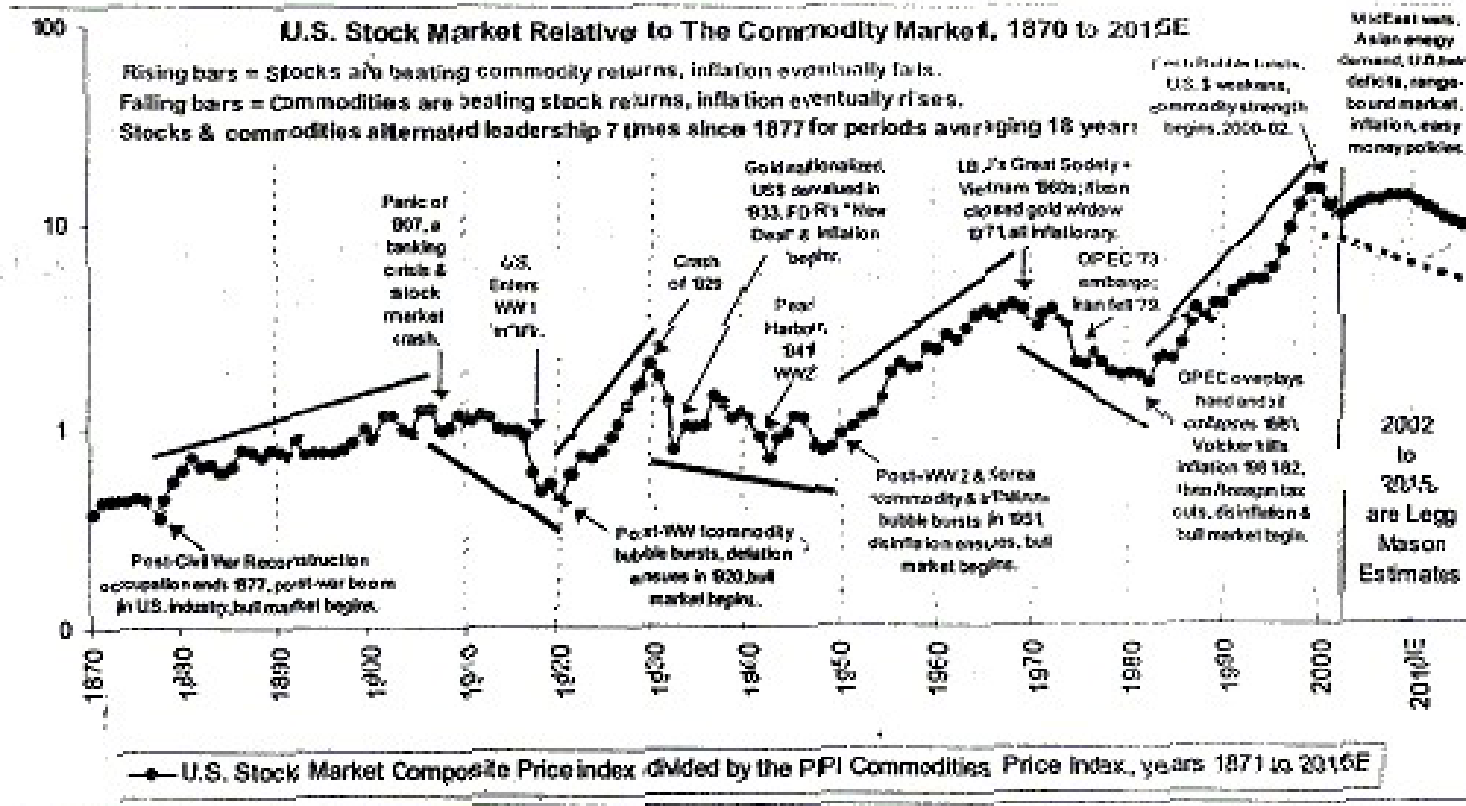
◆ Market Cycles



UNDERSTAND THE INVESTMENT LANDSCAPE

- ◆ **Are we on a slow turner or a seaming pitch?**
- ◆ **Are we in the middle overs or the slog overs?**
- ◆ **Is this a test match or a ODI?**
- ◆ **Is this Team India of 1990 or 2005?**

COMMODITY & FINANCIAL CYCLES

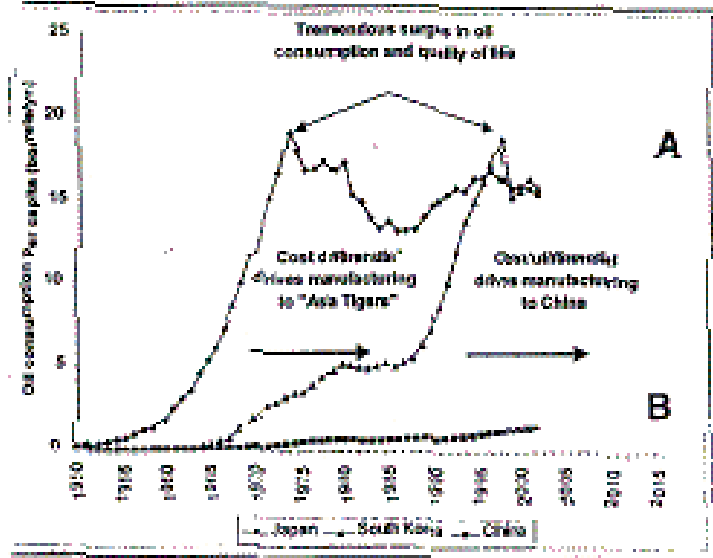


Historical background for our report "The Inflation Cycle of 2002 to 2015" dated April 19, 2002.
 Barry B. Bannister, CFA
 Legg Mason Wood Walker Inc.
 September 13, 2002

Source: Barry Bannister, Legg Mason Wood Walker Inc

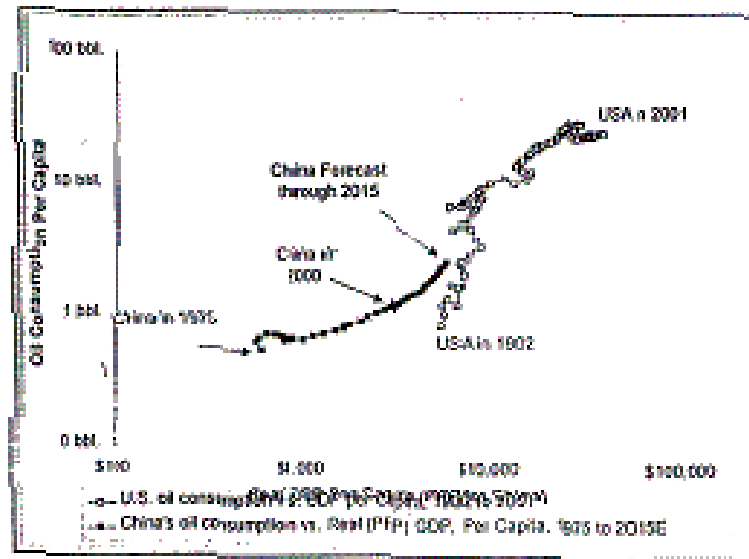
THE COMING OIL SHOCK

Oil consumption per capita for Japan, South Korea, and China, 1950-2007



Source: Oil consumption: 1970-1994: JEM Energy Statistics Database; 1995-2000: BP

U.S. Oil Consumption vs. GDP, 1902 to 2001, And For China, 1975 to 2015E



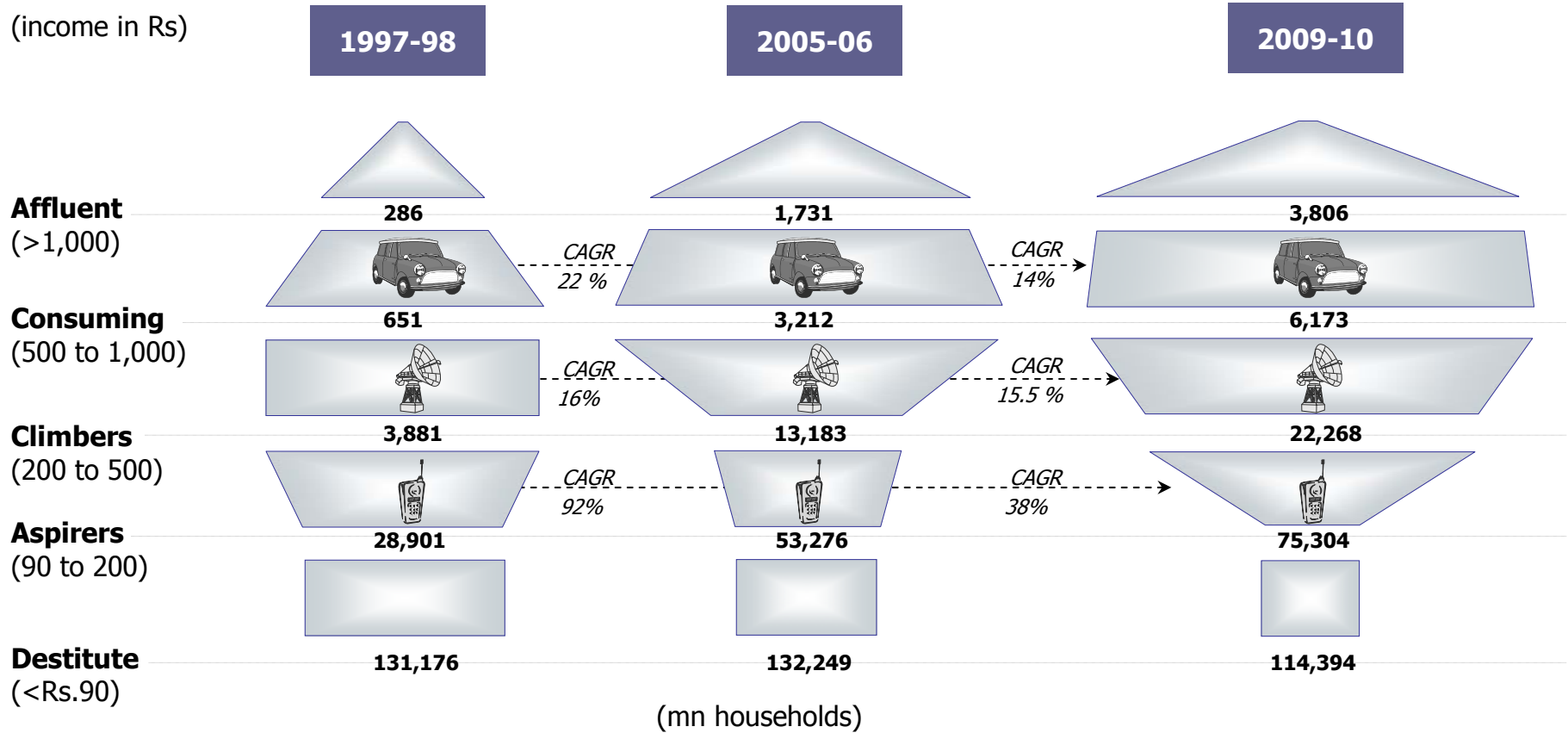
Source: U.S.: pre-1970: U.S. Census publication Historical Statistics of the United States, Current Times; 1970: JGDP used in place of GDP pre-1947, 1970-2001: GDP BIA, DC: EA, China: Oil: 1965-2000: BP Statistical Review of World Energy, 2001: EIA; 2002-2015: ILM projection, GDP in 2000: World Bank; Projection uses GDP growth rate from EIA, International Energy Outlook 2002, high growth case.

Point "E" for China would require *incremental* oil production equal to the total current output of Iraq + Kuwait for example, and Point "A" for China would require incremental oil equivalent to 83% of *total* current world oil. The US traced a similar oil intensive path in the 1st half of the 20th Century (Right, above).

Source: Peter Brunneler / For Mason Wood Walker Inc.

DEMOGRAPHICS IS THE MOST POWERFUL DRIVER

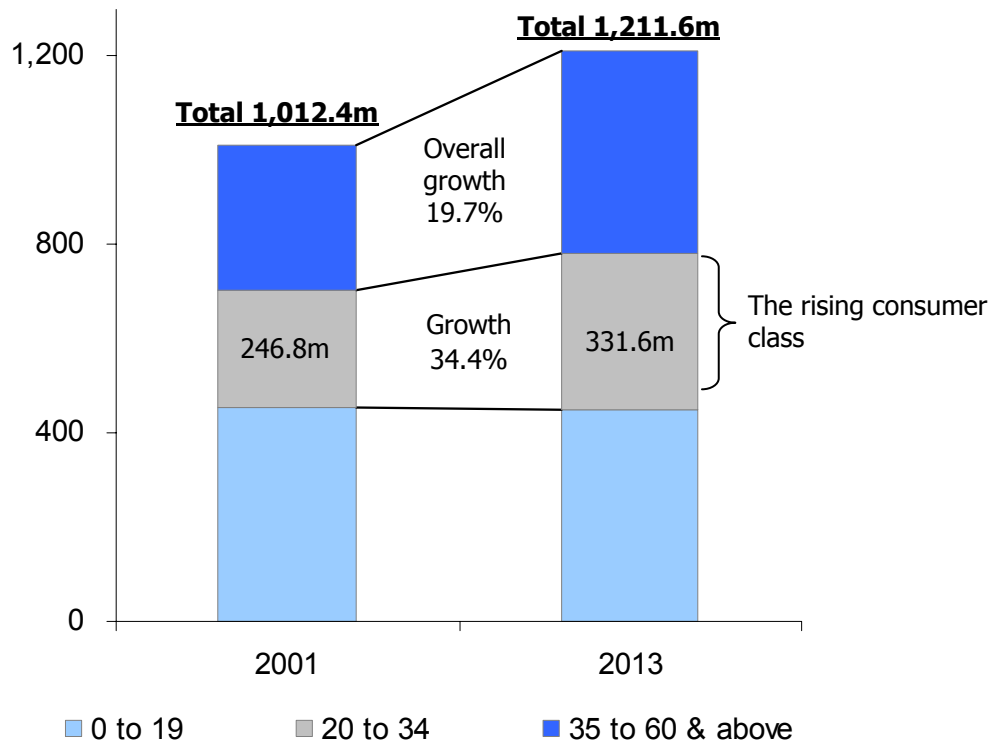
(income in Rs)



Source: NCAER

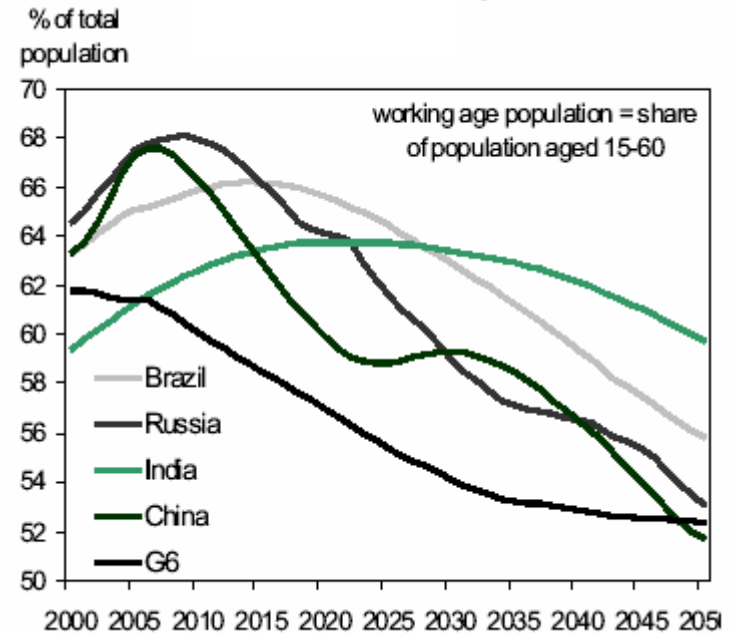
INDIAN DEMOGRAPHICS ARE GREAT ...

Increasing consuming/producing age group



Source: Census 1991

World Age Population Projected To Decline



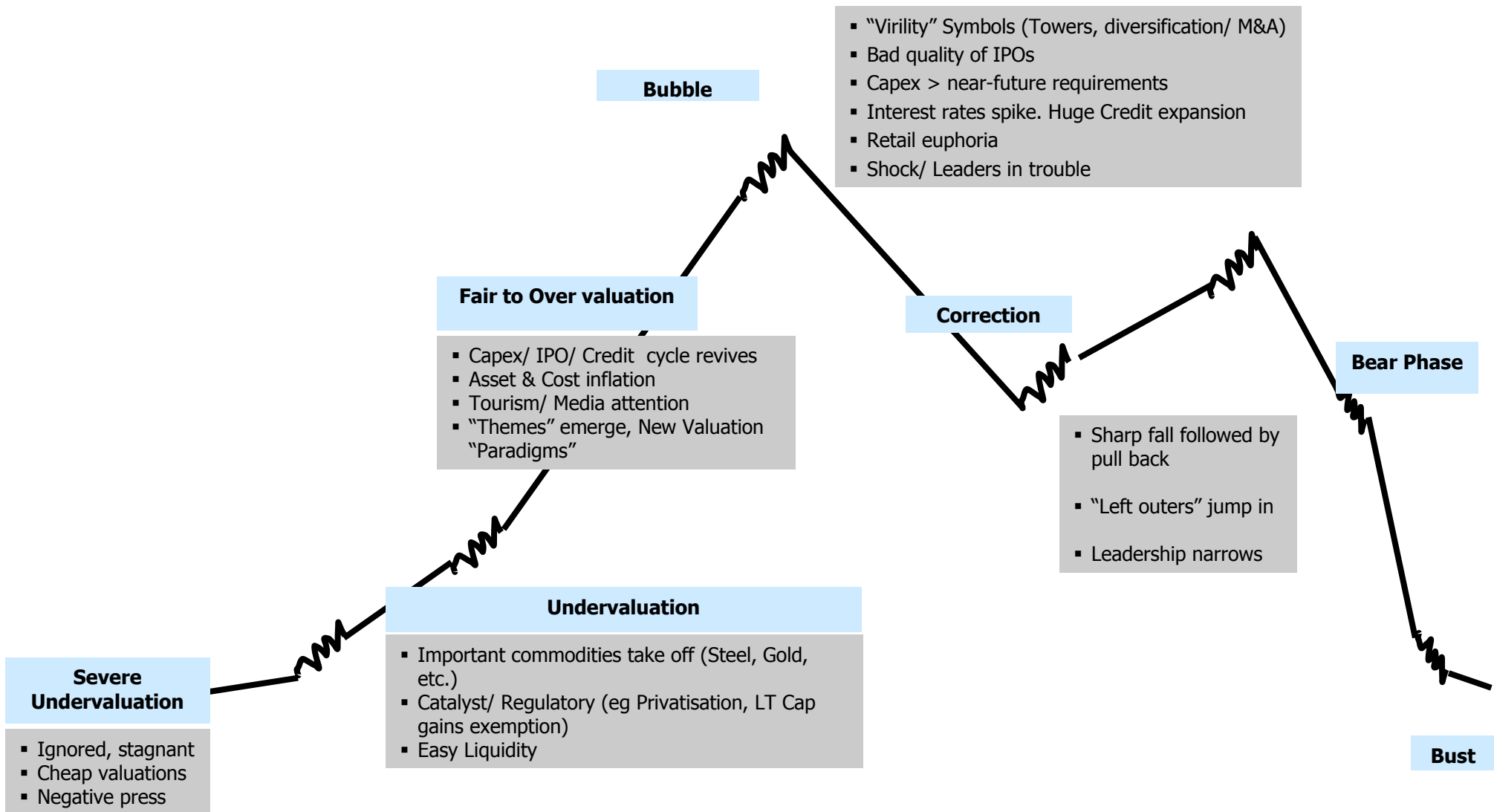
...BUT REPUTATIONS AND TRENDS CAN FAIL!

- ◆ **Japan V/s UK in 1944**
- ◆ **Korea V/s India in 1950**
- ◆ **Singapore!**

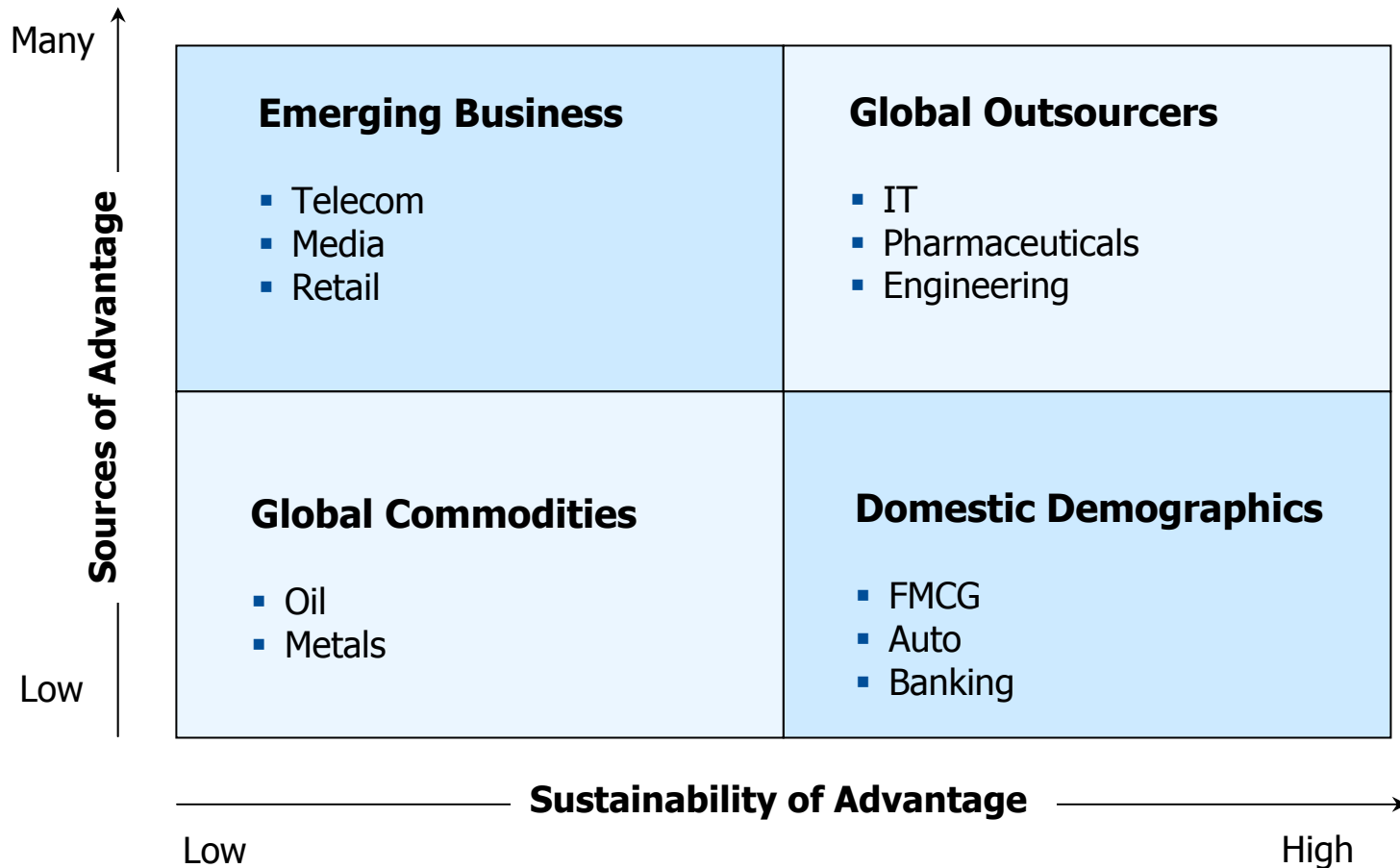
- ◆ **Hero Honda V/s Kinetic Honda**
- ◆ **Bharti V/s IDEA**
- ◆ **Infosys V/s HCL**
- ◆ **HDFC Bank V/s IDBI**

Leadership, +ve Attitude and Discipline always emerge a Winner

... AND MARKETS ARE NEVER LINEAR!



SO ALWAYS DISAGGREGATE THE MARKETS



Note : Companies may change characteristics over time!

Decompose | Decompose | Decompose

Sectors	Large Cap	Medium Cap	Small Cap	Total
FMCG				
Pharma				
Banks				
IT				
Telecom				
Media				
Engg				
Autos				
Commodities				
Total				

Decompose | THEN | Consolidate

- ◆ A good investor is a good businessman and vice versa

Aggregate Portfolio Metrics							
Sales	OPIDT	PAT	DIV	NW	Debt	Net Blk	Wkg Cap

OPM %	Sales / NBIK	Wkg Cap/ Sales	ROI	ROE

Div y/d	P/BV	EV/EBIDTA	P/E	PE/G

UNDERSTAND THE UNDERLYING INVESTMENT

- ◆ **Good Businesses that YOU understand are rare**
- ◆ **Good Businesses with Good Economic Tailwinds are rarer**
- ◆ **Good businesses with “Aligned Interests” are even rarer**
- ◆ **Good businesses and Good valuations are the rarest!**

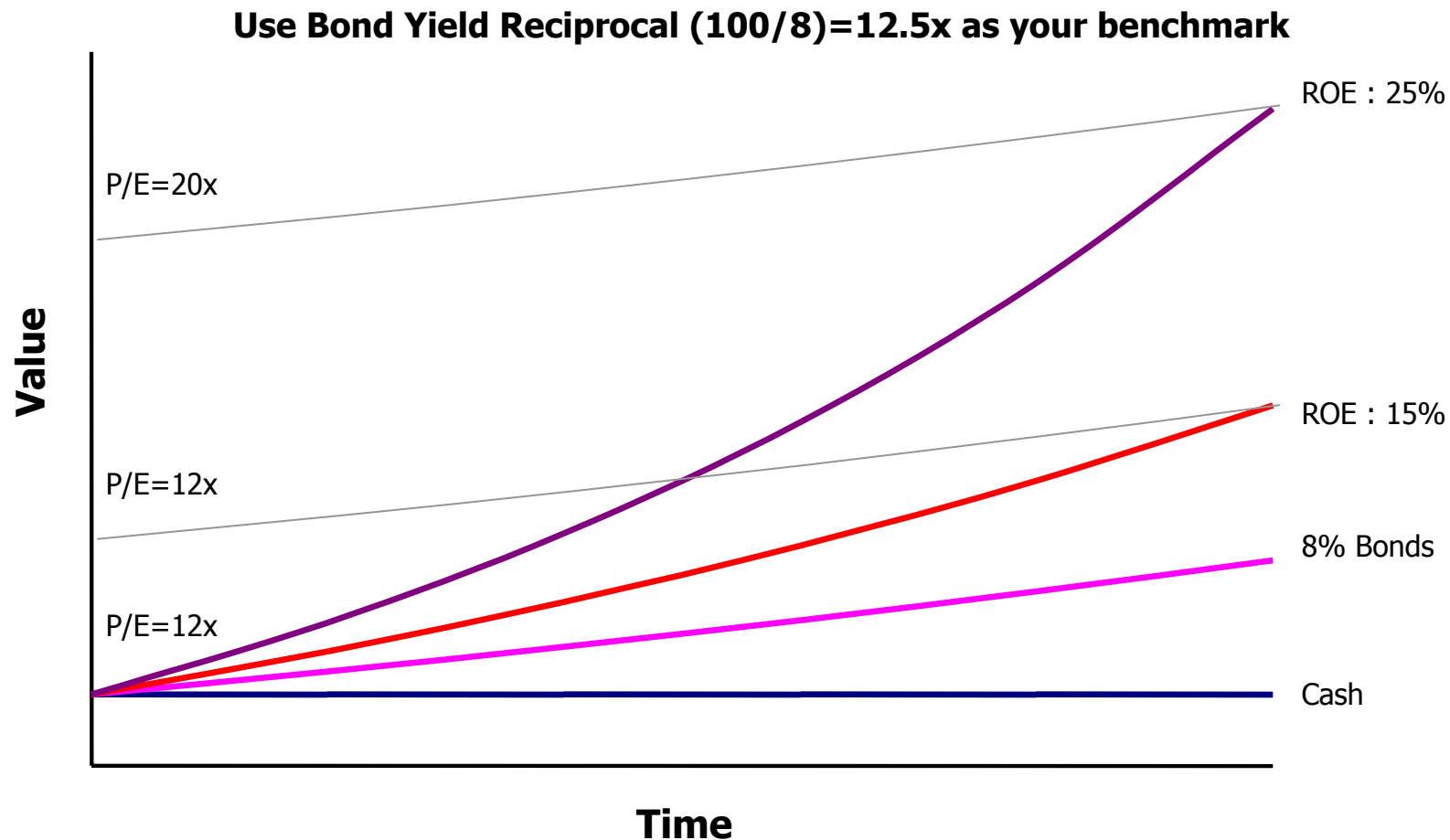
- ◆ **Spend time defining businesses you understand**
- ◆ **Spend time sifting out good businesses within this circle of competence**
- ◆ **Spend time understanding “alignment of interest”**

- ◆ **Be prepared to act boldly when valuations throw up an opportunity!**

EXAMPLES OF MICRO FACTORS

- ◆ **How is Product or Service Quality?**
 - Germany/Japan/China v/s India, v/s competition
- ◆ **How is Cost & Capital Efficiency?**
 - Frugality as a mindset v/s “professionally managed”
- ◆ **What are their Value Systems?**
 - Sugar in the milk
- ◆ **How is their Service to the Customer?**
 - The “goodwill” earned

THE BASIC FRAMEWORK OF VALUATION



PE multiple represents – Predictability, Sustainability, Scaleability

MARGIN OF SAFETY

- ◆ **The central premise of investing is to make money, not to do what is popular**
- ◆ **You pay a high price for a cheery consensus!**
- ◆ **Always, always have a margin of safety when you invest**
 - Higher the P/E – higher the time you need for the investment to pay off.
 - Higher the future expectation you pay for, longer is the payoff horizon
 - Higher the expectation, lower the possibility of reality exceeding it.
- ◆ **Prices move on RATE OF CHANGE from what is known**
 - Do not be surprised when “good performance” is not rewarded!
 - Popularity does not equal profits
- ◆ **TIME IS THE FRIEND OF THE GOOD BUSINESS, ENEMY OF THE BAD!**
- ◆ **There is a time to reap and there is a time to sow...**

Investing is easy if you follow the **BASICS**

◆ **KNOW YOURSELF**

- Are you Schumacher or Buffet? If not – Why not Hire them!
- Proper asset allocation prevents panic attacks!
- Have reasonable return expectation: 15% CAGR compounds to lot of money!
- Trading seems exciting- but investing creates real wealth
- Golden Rule of Investing: Time is the friend of a good business

◆ **QUALITY IS RARE**

- Good men make good companies : Relative goodness is good enough!
- Good companies, like good men – are FEW!
- Competitiveness & culture (Micro factors) matter more than Macro trends

◆ **IS IT IN THE PRICE?**

- Don't double count factors!

MARGIN OF SAFETY & CYCLES MUST BE UPPERMOST IN YOUR MIND

SUMMARY

- ◆ UNDERSTAND YOURSELF OBJECTIVELY
- ◆ UNDERSTAND THE INVESTMENT LANDSCAPE
- ◆ UNDERSTAND THE UNDERLYING INVESTMENT
- ◆ FOLLOW BASIC PRINCIPLES AND STICK TO THEM!
- ◆ BE HAPPY!

"You are what your deep driving desire is.

As is your Desire, so is your Will.

As is your Will, so is your Deed.

As is your Deed, so is your Destiny."

- Brihadranyaka IV. 4.5