Connecting the Dots

What no one told you about passive investing

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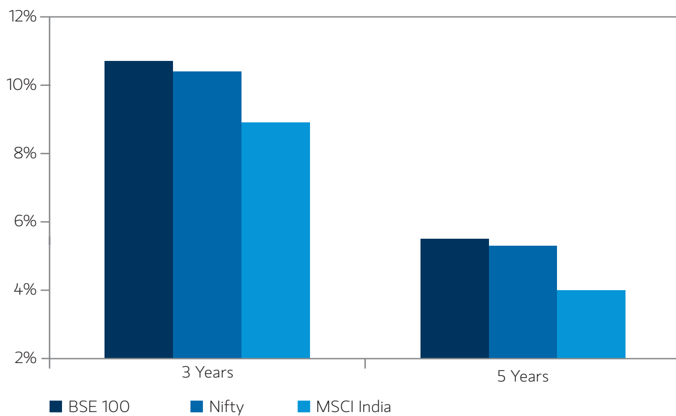
The lure of predicting short term price movements is hard to resist for market participants. Whether or not it benefits investing outcomes is highly debatable but it's a very enjoyable pastime nonetheless. With the rise of passive investing over the last few decades, albeit to a smaller degree in India, a recent addition to this has been the game of predicting which stocks will get included in the benchmark indices at their periodic reviews. To the uninitiated, passive investing is an approach that seeks to match, not beat, the return of a particular stock index by attempting to totally or substantially mimic the index. While local investors are focussed on the Nifty or Sensex, foreign investors benchmark to indices created and maintained by MSCI or FTSE.

The game is that if one is able to guess the inclusion probables and buy those names before passive money is forced to buy, one stands to make a handsome short term profit. Just before the announcement date, frenetic activity starts in trying to predict such inclusions. The time gap between the announcement and the inclusion date is typically two to three weeks and that's the period over which one is trying to make a quick buck. To be sure, this has absolutely nothing to do with the fundamentals of the stock. What it does however is, ramp up the share price of inclusion probables ahead of the index inclusion date. Research by Morgan Stanley that analysed 50 instances of MSCI inclusions from 2010 shows that in the month leading up to the inclusion, the median outperformance over MSCI Index was 5%. On the other hand, in the one month after the inclusion the same stocks underperformed the index by 3%.[1] Simply put, this means if you have invested in an MSCI tracking exchange traded fund (ETF), by advertising the amount and date on which you were going to buy a certain stock, you ensured that you bought it pretty much at the peak of its relative performance. Put charitably, this is momentum investing. Put plainly, this is dumb investing.

[1] Source: RIMES, MSCI, Morgan Stanley Research. Data as of Nov. 2015.

There are facets of how the composition for MSCI indices is determined, that are puzzling. Like most indices, MSCI uses the free float market capitalisation to decide weights of stocks in its indices. This implies that market capitalisation excluding the share of the founders or promoter will be considered since that is what is available for other investors to trade in. However unlike domestic indices, MSCI also uses a special adjustment called Foreign Inclusion Factor (FIF) and foreign room. What this means is that it will consider the headroom available for new foreign investors to invest in the stock. Before we get into why that is a big deal, see what this adjustment cost the MSCI ETF investors. Versus the BSE 100, MSCI India has underperformed by 1.5 % annualised over last five years and by 1.3% versus Nifty. This is significant as Nifty return over that period was 5.3% while MSCI India return was only 4% *(Display 1)*. Mind you, both these are indices with similar composition philosophy except for the FIF adjustment and we are not even getting into active versus passive investing debate here.

Display 1: **Local indices outperform MSCI India** (in INR)

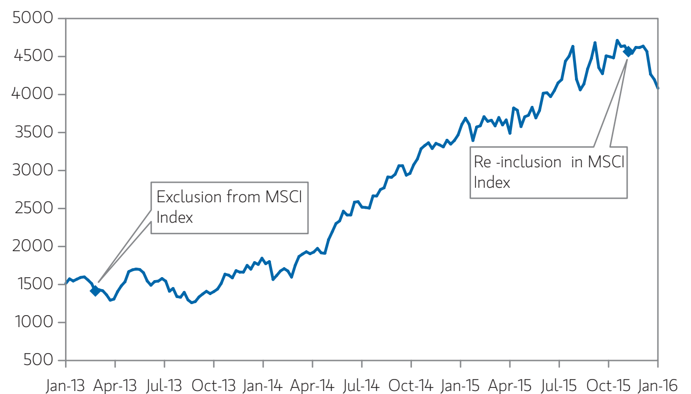


Source: RIMES, MSCI, Morgan Stanley Research. Data as of Dec. 31, 2015.

It is easier to explain the concept of FIF with an example. Let's take the case of HDFC Bank[2] which does not find representation in the MSCI Index despite being the fourth largest stock in India with a market capitalisation of USD 40 billion. As of end December 2015, 47.4% of the HDFC Bank's equity is owned by foreign portfolio investors (FPIs). The overall limit for foreigners to own a banking stock, as imposed by the Reserve Bank of India is 74% so if you add HDFC Limited's holding of 26.5% to the FPI holding of 47.4%, foreigners cannot buy fresh stock from the market.[3] However the stock is freely traded on the foreign window i.e. one foreign investor can buy from another in the market. Average daily traded value over last six months on the foreign window is close to USD 14 million versus USD 23 million[4] on the local window. In HDFC Bank's case the value of FPI holding in the stock is almost USD 19 bn and that float is freely available to foreigners. As the FPI shareholding in Indian equities has kept going up, this has and will create more such headroom issues especially in sectors with regulatory caps like banking. It is the result of this process that the weight of banks in MSCI India is a meagre 3% with only two banks viz. ICICI Bank and State Bank of India finding representation.[5]

Even more curious is the case of Maruti Suzuki India *(Display 2)*. The stock was excluded from MSCI Index in February 2013 citing lack of foreign headroom. Maruti subsequently increased its foreign ownership limit post which the stock got re-included in the index in November 2015. Maruti's stock price was INR 1404 on the date of exclusion and INR 4556 on the date of re-inclusion. As an investor with money tracking the MSCI Index, one effectively sold at 1400 and bought it back more than three times higher within three years, a period in which the MSCI Index returned only 30%.

Display 2: **Price chart of Maruti Suzuki India** (in INR)



Source: RIMES, MSCI, Morgan Stanley Research. Data as of Jan 25, 2016

On a country level, when compared to either the GDP of a country or its market capitalisation, MSCI weightages in Emerging Markets (EM) indices are also skewed. We find it remarkable that for a lower total market cap than India, Korea's weight in the MSCI EM Index is over 80% higher. For India to be fully represented in the index in line with the share of EM market cap, India's weight should be over 10% versus 8.9% now *(Display 3)*.

[2,3]Source: BSE, Bloomberg, RBI. Data as of Dec. 31, 2015.

[4,5]Source: Bloomberg. Data as of Dec. 31, 2015.

Display 3: **Comparison of India and Korea in MSCI EM Index**

	GDP 2015e (USD bn)	Full Mcap (USD bn)	MSCI FF Mcap (USD bn)	Weight per MSCI FF Mcap	Weight per Full Mcap
India	2183	1493	274	8.9%	10.1%
Korea	1393	1212	499	16.2%	8.2%
Emerging Markets	25061	14763	3082		

Source: RIMES, Bloomberg, IMF, Morgan Stanley Research. Data as of Jan. 22, 2016. FF Mcap - Free Float Market Capitalisation

How MSCI decides to assign weights to stocks, sectors and countries is entirely their prerogative. As per last count, about USD 13bn to USD 15bn[6] was invested in Indian equities through MSCI benchmarked funds. Our simple submission to the owners of those USD 15 bn is that if you are investing money in a MSCI linked ETF beware of the distortions it creates and let the lure of low fees not make you penny wise and pound foolish.

[6] Source: Bloomberg. Data as of Jan. 25, 2016.

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Connecting the Dots

Navigating Volatility

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In a recent interview on CNBC, legendary investor Warren Buffett remarked "I never know what markets are going to do..... I know what markets are going to do over a long period of time, they are going to go up. But in terms of what's going to happen in a day or a week or a year even, I never felt that I knew it and I never felt that was important". While these words may seem simple, most investors would find it extremely difficult to not get swayed by short term market movements.

Since the beginning of this year, Indian markets have seen volatile moves, gyrating to the tune of both global markets (led by the Shanghai Composite) and local events (such as the Union Budget). While this essay does not purport to be a critique on the recently announced Union Budget, it would suffice to say that the Budget proved once again that 'big bang' reforms will not be the operating template for India. Reforms in India will be a slow and tedious process, requiring the buy-in of the opposition and the bureaucracy. Moreover, what was evident once again this year, is that while India may be in a relatively better position based on external macro indicators compared to 2013, the correlations with global markets always rise disproportionately during periods of heightened uncertainty in other parts of the world.

As we navigate the volatility in markets, we constantly refer to some guideposts or rules so as not to deviate from our core job of generating superior returns as investors.

The cardinal rule in our view is to not stop evaluating stocks. As bottom up investors, we remind ourselves to not get caught up with trying to predict the next move of the index at large, but to continue to research stocks on our radar. Moreover it is not necessary that stocks that have fallen the most are most attractive. The ones that may be down more than the others may be so for good reason. Market participants have a tendency to obsess over 'price' rather than 'value'. Just because a stock is down, say 25%, does not make it cheap. There is a possibility that the starting price was

way off the mark or that the dynamics of the company have changed by virtue of the fact that a turnaround in earnings may have been postponed or the assets are more impaired than originally assumed.

The other mistake we try to stay clear of is to not obsess with timing the market bottom. In his recent newsletter,[1] Howard Marks, while referring to the current state of the markets, says "while this might be 'a time' to buy, I'm far from suggesting its 'the time' to buy." Market participants in our opinion spend disproportionate mental energies in trying to find the precise bottom. If in the rare case one does get it right, it might make for a good story to tell at a party, but it is more likely going to be a case of lost opportunity where the individual totally misses buying in the market. Often the difference between making say five times your initial investment or seven times is not nearly as important as totally missing the opportunity.

Another common fallacy among investors is to be impatient in playing contrarian. Quite akin to recent studies[2] that reveal that our attention span has shrunk to eight seconds (not much better than a goldfish), so too in the markets there is a growing sense of impatience to enter what appears to be a contrarian trade. At the first sign of a seeming trend reversal, market participants are quick to pile onto a trade assuming they are among the minority contrarian investors. In reality, when everyone thinks he or she is contrarian, chances are that the contrarians are actually becoming a part of the emerging consensus. We have seen this play out several times in the last few months with oil prices.

A related pitfall is the rubber band effect i.e. the assumption of mean reversion. One needs to distinguish the mere mean reverting stocks from great investment opportunities at bargain prices. More often than not a major and volatile stock market correction could signal the end of an era (such as the super-cycle in commodities), and it would be a costly mistake to assume that all stocks in that sector will regain their lost lustre. The importance of focussing on emerging themes is even more relevant when the corrections run deeper, such as in 2008, where the repair and recovery process could take even longer. Usually after a major market correction, a new investment theme may potentially be emerging in some ignored corner. One needs to remain attentive to these changes.

In summary, to quote Thomas W Phelps,[3] author of the book '100 to 1 In The Stock Market' - "thinking too much about what the market is going to do can be expensive, even when one is right". So, we relentlessly focus on our research, switch off our screens and stick to our knitting.

[1] Howard Marks (Jan 2016). *On the Couch.* Oaktree Capital Management

[2] Consumer Insights, Microsoft Canada (2015). *Attention Spans.*

[3] Thomas William Phelps (2014). *100 to 1 in the Stock Market.* Brattleboro, Vermont: Echo Point Books & Media

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Connecting the Dots

ESG: A New Dimension to Investing

In the past few months there is a sudden awakening of mainstream interest in India around pollution issues. The newfound interest can be traced back to the widely debated measures taken by Delhi Government to curb pollution, the Agreement on Climate Change in Paris (COP21) and even World Health Organization (WHO) reports on the alarming levels of air pollution in Indian cities. Some of the statistics are damning – per WHO, 13 out of the 20 most polluted cities in the world are in India, pollution levels in the most polluted city of Delhi as measured by particulate matter most harmful to respiration (PM2.5[1]) are almost thrice that of Beijing and nearly fifteen times more than that prescribed by WHO *(Display 1)*. The implications have been severe like a reported fourfold increase between 2008 and 2015 in the number of patients with respiratory ailments at the All India Institute of Medical Science in Delhi[2]. A Deutsche Bank report[3] quotes a study by the Royal College of London that found an increase in PM2.5 by one microgram per cubic metre reduces life expectancy by 3 weeks which implies that such alarming levels could chop off a significant portion of one's healthy years.

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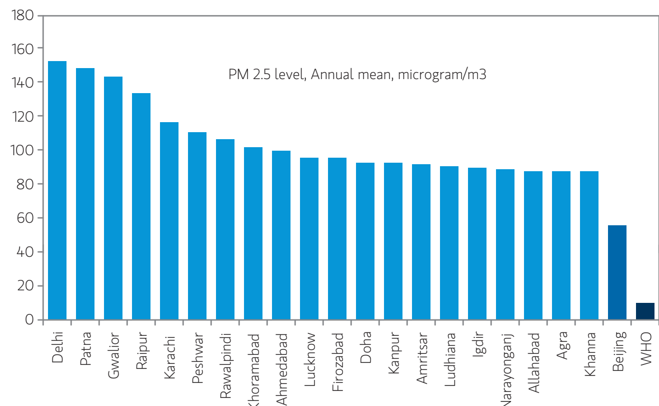
[1] Particulate matter smaller than 2.5 micrometers

[2] Leave Delhi (April 2, 2015). ***The Indian Express***. Retrieved on April 1, 2016 http://indianexpress.com/article/india/india-others/leave-delhi/

[3] Jun Ma (March 2013). ***China: Big bang measures to fight air pollution.*** Deutsche Bank

Display 1: **Top Polluting Cities**



Source: WHO's Ambient Air Pollution Database, 2014.

WHO Guideline values for PM2.5: 10 microgram/m3 annual mean, 25 microgram/m3 24-hour mean

We have seen a similar spike in interest about the issue in China before. In January 2013, Beijing experienced a prolonged bout of smog, so severe that residents termed it "Airpocalypse". PM2.5 levels reached 40 times[4] the WHO standard prompting the Chinese Government to swing into action. In December 2013, the National Development and Reform Commission (NDRC) issued the first nationwide blueprint[5] for climate change, outlining an extensive list of environmental objectives for 2020. Crackdown on polluting factories and mandatory real time disclosures of air emissions and water discharges followed with Premier Li Keqiang declaring a war on pollution[6] in March 2014.

Even in India, the Union and state Governments have been alive to the problem and instituted a series of measures to control this menace *(Display 2)*. While the jury is still out on how successful or achievable some of them are, what is certain is that we have barely scratched the surface in tackling the issue. If the first step in solving a problem is acknowledging that you have one, we have crossed that hurdle. The second important step is trying to correctly frame the problem which would mean getting good, timely information on the sources of pollution. Nationwide data on the sources of pollution is hard to come by. Also it is difficult to extrapolate global data as sources of pollution are not comparable across the world. Burning firewood as cooking fuel, for instance, is a major source of pollution in India unlike most parts of the world.

Display 2: **Key Regulatory Measures**

Auto	Draft regulations to advance the implementation of BS V and BS VI fuel emissions standards by three years versus the original schedule (2019 and 2022 respectively). Also intends to make BS IV (equivalent to Euro-IV) applicable across India by April 2017
Energy	Mandatory supply of crushed coal to all thermal power plants from April 1 , 2016 Coal above grade G-10 to be transported only after being washed from Oct 01, 2017 Preferential allotment of cheaper gas for city gas and piped gas applications Introduction of clean energy cess on imported coal and production of coal, lignite and peat to fund clean energy projects in the gas and renewable space
Power	Stringent norms for emission from thermal plants regarding (1) the height of chimney (2) specific emission limits to be achieved (3) Monitoring of Water usage effluent disposal. (4)mandatory installation of flue-gas de-sulfurization (FGD) units, in certain cases
Measures taken in Delhi	To permit only odd/even numbered vehicles on alternate days for a fortnight from Jan 1, 2016 Temporary ban on registration of diesel luxury cars/SUVs (>2000cc) A scheme to ensure compulsory scrapping of diesel vehicles that are over 10 years, under consideration

Source: Kotak Institutional Securities, Nomura Research, IDFC

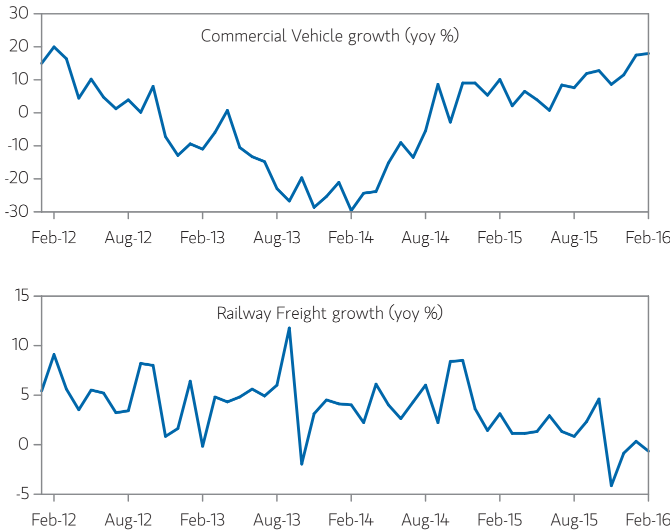
While getting timely data should be a priority, equally important is coordinated action on the issue. Public policy will have a big role to play here and the states and Union have to work in tandem for this. What we see currently is disjointed and localized action treating the symptoms rather than the disease. Certain policy actions have unintended consequences especially when viewed through the lens of their impact on pollution. In 2014-15, Indian Railways significantly hiked haulage charges for freight transport which co-incided with a large reduction in diesel prices that makes road transport for freight more economical. This meant that transporters aggressively shifted their preferred mode of transportation from rail to road. This is evident in near zero growth in rail freight traffic and a heady 20% growth in sales of commercial vehicles *(Display 3)*. What this has effectively done is shifted freight movement in the country to a much more polluting form of transport.

[4] Something in the air? (Jan 19, 2013). ***The Economist***. Retrieved on April 11, 2016 from http://www.economist.com/news/china/21569743-measures-air-pollution-go-scale-public-impatience-rises-something-air

[5] China's Policies and Actions for Addressing Climate Change (2013). Retrieved on April 11, 2016 from http://en.ndrc.gov.cn/newsrelease/201311/P020131108611533042884.pdf

[6] China to 'declare war' on pollution (March 4, 2014). ***Reuters***. Retrieved on April 11, 2016 from http://www.reuters.com/article/us-china-parliament-pollution-idUSBREA2405W20140305

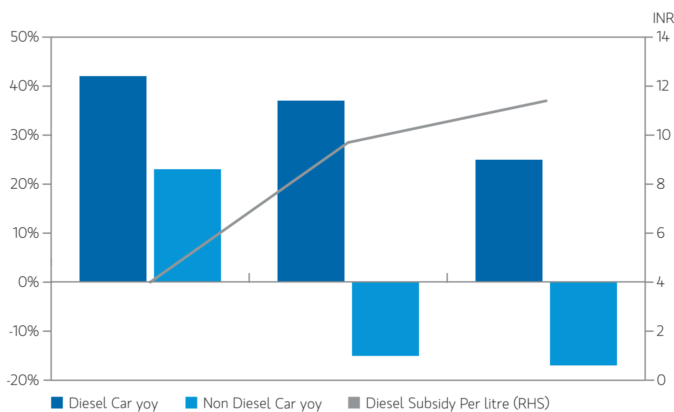
Display 3: **Trends in Freight Movement**



Source: SIAM, CMIE, Jefferies. Data as Feb 2016.

A similar unintended consequence was the large growth in the sale of diesel vehicles in the country between 2011 and 2013, when diesel was subsidized and petrol and natural gas were not and consumers preferred to buy diesel vehicles due to this incentive structure *(Display 4)*. Or take the case of industrial fuels like furnace oil and naphtha compared to use of natural gas for industrial purposes. These fuels are infinitely more polluting than a gas based solution and yet in the state of Gujarat fuel oil attracts only 5% sales tax while natural gas for industrial use is taxed at 15%[7]. Ideally, a solution which is more environment friendly should be incentivized but priorities have clearly been elsewhere in these cases. Such consequences have to be acknowledged and studied at the design level itself with environmental considerations embedded in all facets of policy making.

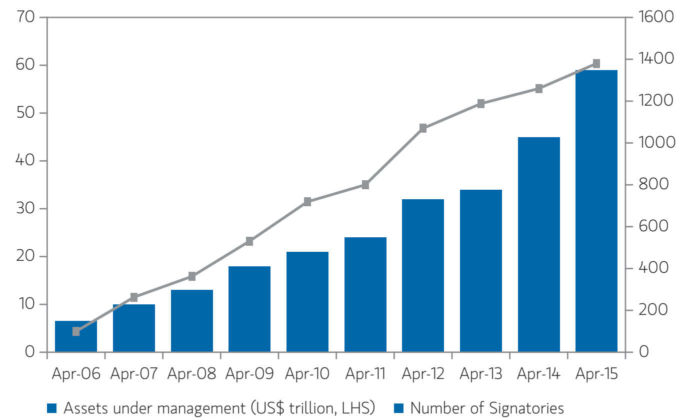
Display 4: **Growth in Diesel Car Sales**



Source: SIAM, CRISIL, Morgan Stanley Research. Data as of March 31, 2013

In case you are wondering if we have switched professions from being institutional money managers to being green activists, we haven't. Institutional investors and our clients have become increasingly focused on Environmental, Social and Governance (ESG) related matters of companies that we invest in. The number of asset manager signatories to the United Nations Principles for Responsible Investing (UN PRI) is growing rapidly *(Display 5)* and this means that there will be increasing and more wide-spread pressure on Governments and corporates to make ESG a center-piece of their policies and strategies respectively.

Display 5: **UN PRI Signatories– Gathering Momentum**



Source: UN PRI, http://www.unpri.org/news/pri-fact-sheet/

As investors, we are spending considerable amount of time trawling through Business Responsibility Reports that form part of Annual Reports of corporates, a section that honestly speaking, we flipped over a few years ago. It is a given that more money is going to chase companies that score highly on ESG and that will result in premium valuations. From an investing standpoint, this will be an enduring theme in the markets and companies that help provide environment friendly alternatives to existing methods will be huge beneficiaries. In the Indian context, these could be providers of city gas, technology companies that help reduce emission, those engaged in production of clean power or facilitating it as financiers or contractors. Corporates and investors will do well to sit up and take notice of this new trend.

[7] Source: Nomura Research

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Connecting the Dots

A Dashboard Approach

Cutting through the noise of confusing macro data

In our meetings with clients, two questions come up almost every time. The first is how we incorporate macro data in India into our portfolio construction framework considering the recent confusion and contradictions surrounding the new GDP data series. The other question is, do we not need to hire an army of analysts to track more than 5000 listed stocks[1] on the Indian stock exchanges. In this essay we seek to address these two questions.

The scepticism surrounding the accuracy of the GDP data under the new series has been discussed ad nauseam since it was introduced in January 2015. Some critics have compared the Ministry of Corporate Affairs database used by the CSO (Central Statistical Office) with the aggregate reported numbers of a wide universe of listed stocks to highlight the stark divergence. While others have attempted to fine tune the GDP deflator, a tough task with the gap between CPI and WPI still quite wide. Some have sought to develop their own Indian variant of the popular LKQ index of China to prove that underlying growth in the economy is much lower than the official reported numbers. For those unfamiliar with the LKQ index, apparently the premier of China, Li Keqiang had in 2007 remarked that China's GDP figures are 'man-made' and he himself used indicators like railway cargo volume, electricity consumption and bank loans data to overcome the unreliability of the GDP

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[1] Source: BSE, NSE

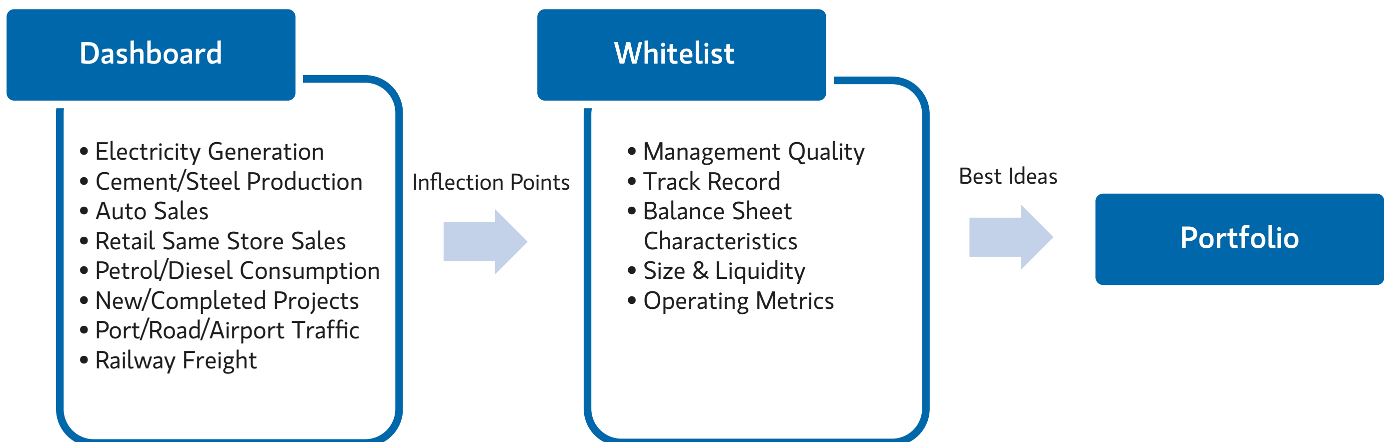
numbers. However this essay is not another critique on the new GDP data series. As investment professionals we need to work around the macro numbers that the CSO churns out, with more granular, timely and accurate data points.

In 2009 a report commissioned by French President Sarkozy and chaired by Joseph Stiglitz highlighted the shortcomings of GDP as an indicator of economic performance and social progress and recommended, among other things, to use dashboards or sets of indicators to track sustainable development.[2] Over the years we too have created our own dashboard of high frequency indicators, sourced from various industry associations and agencies, to track the health of the economy. Data on variables such as diesel consumption, power generation, cement dispatches, road tendering and automobile sales is more reliable and can be converted into actionable ideas to invest *(Display 1)*.

of these macro numbers come with a lag and are often subject to revisions makes it even less reliable.

The second question is how to pick stocks, after identifying trends from the macro dashboard, particularly when the universe of listed stocks on the Indian exchanges is more than 5000. Over the years we have created a whitelist of stocks that we feel best transmit a sector view. These are stocks that meet our hygiene factors on management quality, size, corporate governance and good operating metrics. So once the high frequency dashboard throws up a sector that is at an inflection point, or confirms a trend, we waste little time in making up our mind on which stocks will benefit from the sector tailwind. Our long institutional memory serves us well here. This is not to say that the whitelist is not constantly reviewed and revised. Nor are we saying that there is no merit in pure bottom up investing where there is a management change or

Display 1: **A Dashboard Approach**



Indicative list. Source: Morgan Stanley Investment Management.

After all, our long held view has been that the recovery in the economy will be gradual and more importantly uneven. So, in short not all segments of the economy will turnaround at the same time. Hence these high frequency indicators are far more useful in picking pockets of turnaround or acceleration than the headline numbers of GDP growth, fiscal deficit or inflation. So while the debate on the accuracy of the macro data will continue it does not cause any major impediments to our stock selection process. In short, if the monthly cement despatch numbers confirm a trend we would be happy to buy into that sector, but conversely a 12% real growth[3] in the manufacturing sector of GDP released by the CSO will in all likelihood not trigger any investment action. The fact that most

[2] Joseph E. Stiglitz & Amartya Sen (Sep. 2009). Measurement of Economic Performance and Social Progress. Retrieved on May 10, 2016 from http://www.insee.fr/fr/publications-et-services/dossiers_web/stiglitz/doc-commission/RAPPORT_anglais.pdf

[3] Source: Central Statistical Office, Data as of Dec. 31, 2015

a new strategy being pursued. So, while it may appear that in a country which has more than 5000 listed stocks the buy-side should hire an army of analysts, we think there is a long tail that institutional investors can safely filter out of the investment radar on parameters of quality, governance, size, liquidity and track record.

A related point is management meetings. Often, investors place disproportionate emphasis on management meetings in the hope that it will help them spot inflection points earlier than the street. Brokerage houses organise elaborate conferences to provide a platform for investors to interact with senior managers of companies. Our opinion has been that the management of companies, quite naturally, suffer from an optimism bias, and usually cannot be relied upon to pick up inflection points arising from macro factors. So while meeting with the CEO of a company may help understand the broad strategy being pursued, it is likely to be a poor guide to time when the macro tide will turn in favour of or against the company.

Nate Silver says in his book 'The Signal and the Noise'[4], "The signal is the truth. The noise is what distracts us from the truth". In the same vein, our mantra, in the current environment, is to invest based on evidence rather than hope. We meticulously update and analyse our dashboard of high frequency indicators and cut out the surrounding noise of confusing macro data. And most importantly, we keep our whitelist of stocks ready.

[4] Nate Silver (2012). *The Signal and the Noise.* USA: Penguin Group

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Connecting the Dots

What not to do when investing

Each year new books appear on the newsstands that promise to unpack the secret sauce to successful investing. It is ironical that such books appear each year which means that the ultimate guide to successful investing has not yet been written. In addition to the slew of books there is an epidemic of listicles these days that offer to distil the habits of successful investors for you to emulate. For instance, all top investors are early risers and voracious readers are frequently cited. As if waking up at the crack of dawn and reading tomes is all it takes to enter the legion of billionaires. While all this self-help literature overwhelmingly focuses on what to do for that elusive investing success, there is scant information on what not to do and as practitioners we can assure you that what you choose not to do is equally if not more important to your eventual investing success.

Before we get into the list of avoids, like in any linear programming problem, it is important to define the objective function. Here we are optimising for superior long term investing outcomes for a stock-picker. Superior equals comfortably better than inflation, long term is longer than one full business cycle and stock-picker is a person interested in investing in individual stocks.

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1. The Meaningless Aggregates

Every time we are to make a public appearance as investors, the one thing we cram up the night before is market Price- Earnings ratio, headline GDP numbers and its constituents and market capitalisation to GDP. The reason for having to cram up is that we know we will be asked this and since we do not care about these metrics in our day to day investing our memories have to be refreshed. We also pay scant attention to country weights in global benchmarks. However, what most tickle our funny bone are index targets from a myriad of experts. Ralph Wanger in his book A Zebra in Lion Country[1] made it clear to us decades ago, "If you believe you or anyone else has a system that can predict the future of the stock market, the joke is on you." Though funny in a Wanger way, we take this line very seriously.

2. The Binary Global Macro

We did a bit of poll for this article amongst our investor and analyst friends and the top item in the list of Ignores was Macro. Now the term macro is sort of a catchall term that means several things for several people. Understanding and appreciating the macro regime in which one operates is important but what should be ignored by the long term stock picker are events that are made out to be binary in nature - if it goes this way we are off to the races, if it goes the other way we get clobbered. Current Exhibit A for this is Brexit. We don't have the foggiest idea of what's going to happen and we really don't care. Our preferred approach is to use these macro dislocations to get in or out of stocks at price levels that we like.

3. Flows

Market participants obsess over the source and type of money that flows into the market. As we had written earlier, there is a small cottage industry of people who try to predict which stocks will get into which indices and will result in what quantum of passive money flow. People also religiously check block and bulk deal information or try to cajole information out of broker friends to find out who is buying and selling what. As fodder to the voyeur inside, this is fine but treat it like watching an episode of Big Brother[2] – just as that doesn't affect your life, neither should this affect your investing.

When we were newbies in the market, like 'degrowth', a new word that got added to our vocabulary was 'overhang'. Though quite familiar with hangover, we didn't know that overhang meant a possible large seller in a stock because of who the stock price is under pressure. When going through old notes we still laugh over how we described such overhangs as key risks and over time it didn't matter one bit.

4. Sell Side Shenanigans

Our inboxes get mauled every January with investing strategies for the New Year (In a game of one-upmanship, this activity starts in November these days). We don't think stocks and underlying businesses care for the fact that the calendar year has changed. Neither do they care for analyst recommendation upgrades, downgrades, change in target prices, bonus issues or stock splits. You shouldn't either.

5. Esoteric Distractions

Delhi-watching is another favourite pastime of the chatterati. What policy makers are doing, likely to do, not doing, not likely to do occupies prime mental space. State elections, coalition math, truant weather, tax treaties are interesting party conversations but don't let these topics pollute your investing process.

Separately, while caring for the minority shareholders is an important attribute, minority-friendliness is often confused with the number of TV appearances of the Chief Executive Officer. That by itself has no bearing on long term stock price performance. One of the best performing stocks in our portfolio is a multinational company in the auto ancillary space and in the seven years that we have held the stock we haven't seen the CEO even once on TV.

It is difficult to summarise all the un-essentials in one article but our guiding principle is neatly captured by Paul Samuelson "Investing should be more like watching paint dry or watching grass grow. If you want excitement, go to Las Vegas". Suffice to say, anything that triggers the same tingle of excitement as the dying revolutions of a roulette wheel, is not investing.

[1] Ralph Wanger (1997). A ***Zebra in Lion Company.*** New York, Simon & Schuster

[2] Reality game show franchise produced by Dutch media company Endemol

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