InvestorInsights: Neeraj Marathe

Neeraj Marathe shares his thoughts on value investing and his process of identifying stocks for the long run.

Neeraj is a value investor based in Pune, Maharashtra. Investing is his passion and investing in equity is what excites him most. He has built his core competency around investing in Indian listed companies, specifically mid-caps and small-caps, using fundamental analysis and value investing principles.

By nature, Neeraj is conservative and risk-averse, and it spills over in his approach towards investing too. He is an avid reader and likes books based on value investing, behavioural finance and psychology.

While I have met Neeraj just a few times, I have come to respect his investing acumen via whatever little discussions we've had.

In this interview with Safal Niveshak, Neeraj lays out his investment philosophy and suggestions for how investors can do better in their investment decision making.

Over to Neeraj!

Safal Niveshak (SN): *What's your broad investment philosophy? What are the most important things for you as an investor?*

Neeraj Marathe (NM): My whole philosophy rests on doing things that (I think) I understand. I do not think I can call myself as a 'value investor' per say, since I do not think there is a difference between value investing and growth investing. If you pay reasonably for growth, its value too! I try not to have any mind-block or stick to one type of investing and am willing to do whatever makes sense. So I am not averse to playing cyclicals which are short term (for me, 3-5 quarters is short term) or participating in special situations. I am a concentrated investor and don't diversify much. My portfolio consists of maximum 8-10 positions.

For me, the most important things as an investor are:

- Doing things I understand and ignoring the rest, howsoever appealing they might be
- Being ethical in all aspects of investing
- Being independent in thought process and decision making
- Always recognising and acknowledging the role of luck in investing and being as grounded and humble as possible

SN: *Value investors often talk about the importance of stacking the odds in their favour. How do you personally try to do that?*

NM: Stacking odds in our favour is largely a function of our understanding. Most of the times, we realise only in hindsight that the odds were in our favour and we missed the opportunity. Hence, only hard work and in-depth understanding can help in this respect.

I generally look for 'value with a catalyst'. In many cases, these catalysts, which the market has not recognised help stack the odds in our favour. Also, valuations help capture these odds, if they are in our favour.

There is also the concept of 'positioning yourself for luck', which I believe in. In these cases, you invest if you think there is low downside and there exist the chances of positive things happening. E.g. industry cycle turning, corporate actions happening, etc. In these cases, the odds are substantially in your favour. If nothing happens, you don't lose much, if you get lucky and something happens, you earn well!

SN: *How do you generally approach valuations? How do you differentiate between paying up for quality and overpaying?*

NM: This is one thing I have struggled with the most. I have lost many opportunities because I thought the valuations were very high. I have recognised that my mental makeup is not suitable for 'paying up for quality', because in most cases I think I am overpaying!! Maybe I am too conservative or downright stingy!

Valuation is more of an art. One cannot generalise it, since a lot of qualitative factors such as type of business, quality of management, accounting policies, etc affect valuations. So, 'always buying at less than 8 PE' is not my thing. Valuations should always be taken in the context of that specific company's present position and future prospects. In a lot of cases, low valuations exist for a reason, which needs to be studied and found out.

SN: *How can an investor improve the quality of his/her decision making?*

NM: This is one area where I think investors suffer the most. I suggest a very simple technique which can be helpful; whenever you take a decision (buy or sell), take your pen and paper and write down at least 5 points as to why you are taking that decision.

Believe me, it will be extremely hard to do! When you start writing down things you will realise that you have not thought much about it at all!! Also, in future, do revisit whatever you had written and analyse where you went wrong/right. When you write things down, you cannot escape or justify yourself later and are forced to face yourself. This will surely improve decision making.

Another thing which can be helpful is developing a checklist. It need not be very complex or technical, but it will surely give good structure to the decision making process.

SN: *What's that one thing that has helped you in most of your successes as an investor? What can other investors do to make that their own success mantra?*

NM: I think the thing that has helped me the most is avoiding mistakes. The flipside of that is that I have ended up missing a lot of opportunities, but avoiding mistakes has really helped me generate respectable returns over the years.

For other investors to adopt this, always keep emotions in check, avoid greed, don't fall for the 'next big thing' if it makes no sense to you. It is ok to let go of a lot of opportunities (which actually made money later), as long as you can latch on to those few you can properly understand.

SN: *Share with us an investment mistake you often make? If you can pull out form you memory, what causes you to make this mistake often?*

NM: Selling early! I have always made that mistake and continue to make it. I tend to get uncomfortable with valuations and end up selling early.

This mistake happens because either I am not updated with new information and data about the company (improving performance) or I have not judged that the stock is catching market fancy ('re-rating'!). While it's in my hands to avoid the first cause, I don't think I can ever get my head around the second!

SN: *What's your two-minute advice to someone wanting to become a value investor? What should he/she do, and what he/she must avoid?*

NM: Here's what I suggest...

- First, understand yourself well. Do you really want to be a value investor? Or you are doing it just because it's currently the most happening thing in investing? ☺

- Don't ape anyone, because even if you ape someone's investing style, how will you ape his conviction? If there is no conviction, you will never be able to make the best out of it. Be yourself, it will be more than enough. E.g. I think understanding Buffett is very easy, but implementing his style is virtually impossible. That's why there is only one Buffett. Also, one should think whether it really necessary to invest like Buffett? Do we have his compulsions of size? If you read his partnership letters (when his size was much smaller), you will discover a very-very different Buffett.

- Avoid the latest fads! E.g. I honestly think that slowly, 'moats', 'quality' and 'paying up for quality' are becoming fads. It's fancy to say that 'this company has a moat' and it's fashionable to 'pay up for quality'. One really needs to introspect whether one really understand what these concepts mean! Every bull-run has its buzzwords and phrases and most of them end really badly!

- There is no shortcut! There is no alternative to hard work and spending time in the market. So don't expect that you will read 4-5 'recommended' books and immediately become a 'value investor'.

- I see a lot of investors talking about Buffett and aspiring to be like him, but not having any understanding about even basic accounting and financial statements. So, while you develop your process and philosophy, don't ignore these technical aspects. Knowledge of financial statements, laws and regulations go hand-in-hand with sensible investing.

- Enjoy the process! If you find that you are forcing yourself to be a value investor, you will never become one! All you will become is miserable, and poorer! ☺

SN: *Your recommendation for top 3 books on investing and related subjects? What is that one big idea you've learned from each of these three books?*

NM: While there are so many books I find delightful, if I want to list the top 3 books for someone who is starting off in investing, I would recommend –

1. **The Intelligent Investor** – I think this can be the best base for your overall investing philosophy and thought process. Though it's not enough, this book can serve as a strong foundation on which a good investment process can be built.

2. **The Most Important Thing** – This is a collection of 'memos to clients' and contains varied topics. Each one is different and serves to improve your thought process and understanding about various aspects of investing.

3. **Fooled by Randomness** – Anytime you start feeling confident and happy because of good returns and performance, read this book! Helps you to be grounded!

SN: *What other things do you do apart from investing?*

NM: Well, it is very important to do other things too. Too much proximity to the market promotes activity, and in most cases, unnecessary activity! I read a lot, have a huge movies collection and do a lot of motorcycling. For me, that's the best way to unwind and collect your thoughts.