ELIXIR EQUITIES PRIVATE LIMITED

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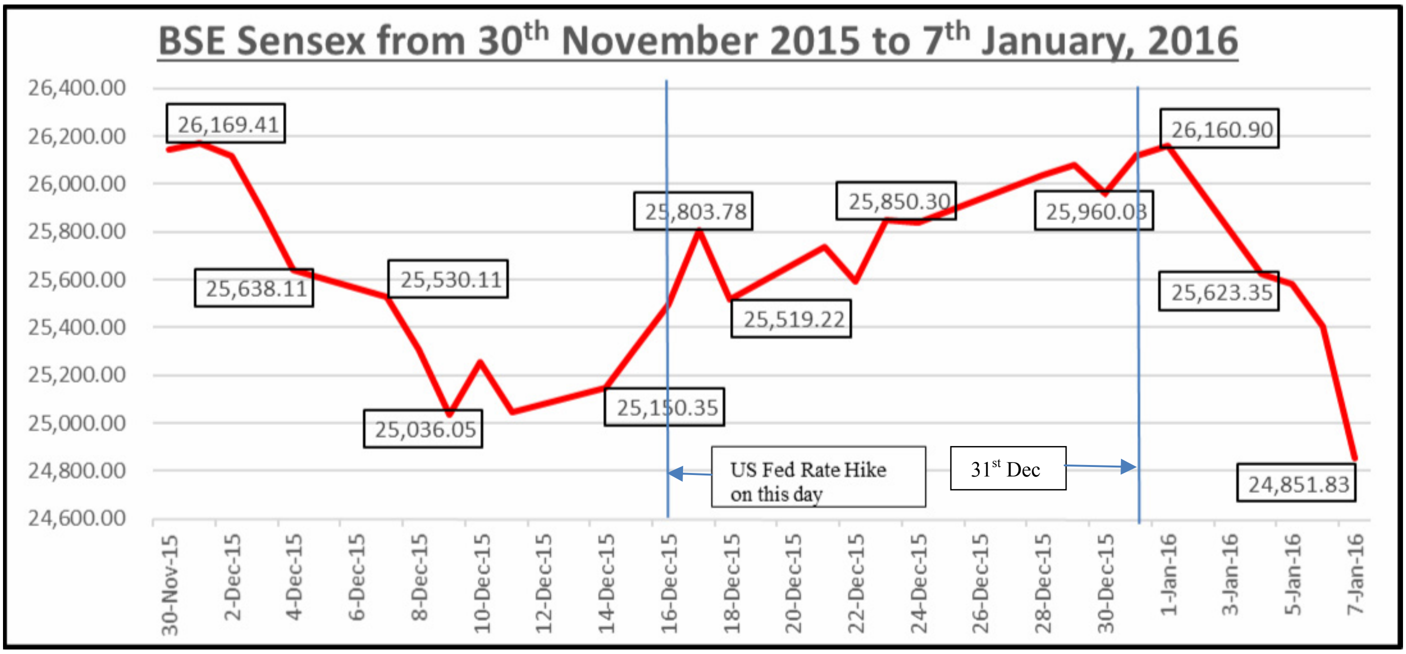
Markets Yoyo in December



Markets rally post US Rate Hike

The month of December and the first week of January can be clearly delineated into three phases, the first phase being the first half of the month. In this period, leading up to the US Fed (FOMC) meeting on 16th December, the markets were under pressure because of FII selling in anticipation of a US Fed rate hike. The Sensex declined from 26,146 to 25,494, a loss of 2.49% as the consensus view being that increases in US interest rate is detrimental to emerging markets (EM) like India. When interest rates in the world's largest economy move up, global investment flows move from risky assets (read EMs) to the safety of the US debt market. It is this risk off trade that has led to FII selling to the tune of Rs. 7629 crores in November and a further Rs.3766 crores in the first half of the month till the announcement of a ¼ % increase in US Fed Rate.

In the second phase, post the hike in US interest rates, our markets rallied in tandem with the global markets. The Sensex recovered lost ground and moved up from 25,494 to 26,118 (+2.44%). We have heard of the *'sell on news'* syndrome, this was the *'buy on news'* syndrome. A major negative event, which the street was closely tracking, was over and done with exactly as predicted. With this uncertainty out of the way / fully discounted, the bulls were attracted to the low levels of the market and foreign funds moved into equities. Post the FOMC meet, FIIs bought Indian stocks aggregating to Rs. 3,972 crores.

Record Inflows from IFIs

It is interesting to note that throughout this vacillation on the part of the FIIs to our markets, the Indian Financial Institutions (IFIs) remained net buyers. They bought Rs. 8,500 crores in November and Rs. 6328 crores in December. What is even more noteworthy is that for the entire year, their net investment was a staggering Rs. 66,875 crores, the highest ever in the history of our capital market – a fact largely unnoticed.

The table below tells an interesting story.

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The might of the IFIs now matches that of the FIIs and we haven't even scratched the surface as regards domestic savings allocation to equities.

Annual Institution Flows (in crores)		
Year	FIIs	IFIs
2007	29,196.31	6,662.44
2008	(35,799.53)	15,785.40
2009	63,258.65	(3,458.80)
2010	74,359.93	(27,241.70)
2011	(8,505.02)	6,494.70
2012	1,14,196.91	(25,369.34)
2013	1,13,034.00	(74,074.50)
2014	97,816.29	(31,403.80)
2015	18,355.48	66,875.13

Ever since the FIIs have come to the scene, our markets have danced to their tune. In the absence of any counter balancing force, their flows drove our markets. If they were on the buy side, we rallied. If they sold, our markets corrected. As a group they dominated India's stock market. Fortunately, it appears, that the game is changing. The growing influence of the IFIs is now visible in our markets. It the prime reason for the Sensex and Nifty outperforming other EMs which have seen foreign outflows. Another positive fallout of the growing presence of the IFIs is the exceptional returns delivered by mid-caps in recent years. Since many retail investors also favor mid-caps, despite negative returns of the Sensex and Nifty, portfolios of retail investors may have delivered positive returns in 2015.

Fears of Global Growth Slowdown

Coming the third phase, post New Year, the markets rallied on the first trading day, but then what followed was carnage. In just 4 trading sessions, Sensex lost nearly 5% as Chinese stocks went into a free fall with trading there being suspended at the lower circuit on two occasions (in 4 days). Poor macro data spooked not only their own market but the rest of the world as well. Fears of global growth slowdown took a toll on equities across the world and we were not spared. Falling commodity prices, especially crude, raised fears that the world output could slip in 2016, and that is always negative for corporate profits and stock markets.

Our view

We are not certain that this mayhem is over and done with. If global growth does slowdown, our economy will be affected. Large sectors such as software, metals and mining, pharmaceuticals, textiles, petrochemicals etc. will face challenging times. Keeping this in mind, we continue to remain cautious on the markets. We would like to wait and watch the upcoming earnings season to take a more informed view on equities.

There are a few experts who have pointed out that corrections in our markets, caused by turmoil in global markets, are good buying opportunities. While we broadly concur with that view, what tempers out optimism is that growth in India too remains tepid. The GDP for September quarter came in at an uninspiring 7.4 %; well below the government target of 8.1-8.5 % for fiscal 2015-16.

We may be inclined to change our view if growth picks up or interest rates are further cut by Governor Rajan. If the upcoming Budget session is a productive one with passage of GST and a pragmatic Finance Bill then that too could reverse this downward trend.

The average returns of the portfolios managed by us are as under:

	1MONTH	3 MONTH	6 MONTHS	1 YEAR	3 YEAR	5 YEAR
Elixir Equities Portfolio Performance	**1.20%**	**-1.06%**	**0.25%**	**7.82%**	**23.44%**	**14.53%**
SENSEX	**-0.09%**	**-2.50%**	**-8.91%**	**-8.83%**	**5.87%**	**1.90%**
NIFTY	**0.09%**	**-2.21%**	**-8.30%**	**-7.88%**	**5.94%**	**2.26%**
Performance comparison (higher of Sensex / Nifty)	**1.11%**	**1.15%**	**8.55%**	**15.70%**	**17.50%**	**12.27%**

Dipan Mehta

SMART INVESTING – III
- Managing Large Holding

Problems of Skewed Portfolios

A highly skewed portfolio is very common problem with investors. One or two large holdings account for a large chunk of the portfolio; in some instances, as high as 50-60 % of the total value. A large holding is invariably because the stock has done extremely very well for the investor; as compared to the other stocks in the portfolio. It could also be because of an investment decision to commit a large sum to a stock in which he / she may have a strong conviction on or may have been tempted to do so by a "*tip*" given by a friend or a market pundit. Nonetheless, whenever there is an outsized holding the portfolio returns are determined by the performance of that specific stock. If the share does well, the investor's portfolio generates a high return. If the stock becomes a laggard, the portfolio returns are dragged lower.

Selling a Dilemma due to Various Factors

More often than not, the investor, (in market parlance) gets '*married to the stock'* and selling it becomes an emotional game. It has been a wealth creator and selling it is a very difficult decision. As long as the share is appreciating, the choice to remain invested is an easy and happy one. However, once the correction sets in or the price moves sideways / underperforms the broad market, the investor is in a dilemma. To shed a position, one has so caringly nurtured requires strong resolve which few investors possess.

To compound the issue, the stock is also generating a decent dividend income and therefore the fear of loss of this revenue stream also plays on the mind of the investor. The purchase cost is generally very low and that provides the investor the luxury to remain invested even when the price is falling. He / She lives in the hope that at some point of time in future the stock price will again revive and the investment will start delivering good returns. In the meantime, there is loss of opportunity to the extent that stock underperforms the Sensex / Nifty gains.

Even Blue Chips Start Under-performing

The table below shows a list of stocks which have delivered extraordinary returns for several years only to stagnate / decline for the next few months / years while the broader market continued to rally.

ITC				Reliance			
Month End	**Price**	**Gains**	**Period**	**Month End**	**Price**	**Gains**	**Period**
May-08	112.00			Sep-04	194.31		
May-13	328.80	194%	5 years from May 2008	Sep-09	979.50	404%	5 years from Sep 2004
Dec-15	344.00	5%	2 years 7 months from May 2013	Dec-15	966.40	-1%	6 years 3 months from Sep 2009
Titan Industries				**TCS**			
Month End	**Price**	**Gains**	**Period**	**Month End**	**Price**	**Gains**	**Period**
Jul-09	57.56			Sep-04	253.50		
Jul-14	352.70	513%	5 years from Jul 2009	Feb-14	2,227.00	779%	5 years from Feb 2014
Dec-15	346.70	-2%	1 year 5 months from Jul 2014	Dec-15	2,365.00	6%	1 year 10 months from Feb 2014

Without going into the reasons why the stock is stuck in a range the need to sell and deploy the proceeds into other performing stocks is a sensible strategy. However, that is said easier said than done.

Smart Investing has a solution to this problem.

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Smart Investing Solution

Since the investor's reluctance to sell the stock is because it is a '*blue chip'*, he / she can be convinced to switch from that stock to other '*blue chips'*. For example, if ITC is underperforming and the holding needs to be trimmed, it can be sold and a basket of other high performers in the same industry group or better still other industry groups may be bought. The investor should also take this opportunity to rectify sectoral imbalances and switch out of ITC to say Banks like HDFC Bank, Indusind Bank, Kotak Bank etc. or even a combination of Banks, Software and Pharma companies.

Re-balancing the Portfolio

A holistic approach must be taken such that the proceeds from selling a large holding should be deployed in acquiring blue chips in industries he / she is underweight in. By following this process, not only the overhang of a large holding is diluted, but the portfolio becomes more balanced with adequate exposure to industry groups with high weightages in the Sensex / Nifty. All in all, the risk element in the portfolio is reduced without sacrificing returns.

In the first of our series on **Smart Investing – Lessons from the Index**, we had presented the benefits of a diversified portfolio. By following this system, the investor will be able to, once and for all, derisk the portfolio and more importantly maintain its quality. The quality is maintained because one large blue chip stock is being replaced by several smaller blue chip holdings. The table below demonstrates this strategy:

-	Scrip	Qty	Current Price	Value	Weight in Portfolio	Trade	Trade Value	Balance Qty	Balance Value	Weight in Portfolio (post trade)
1	ITC	3,000	313.35	940,050	74.80%	(2,500)	(783,375)	500	156,675	12.62%
2	Sun Pharma	100	793.00	79,300	6.31%	100	79,300	200	158,600	12.77%
3	Dr. Reddys	25	3,010.60	75,265	5.99%	20	60,212	45	135,477	10.91%
4	ACC	25	1,294.00	32,350	2.57%		-	25	32,350	2.60%
5	Tata Motors	150	353.00	52,950	4.21%		-	150	52,950	4.26%
6	Hindalco	1,000	76.90	76,900	6.12%		-	1,000	76,900	6.19%
7	HDFC Bank		1,061.80	-	0.00%	120	127,416	120	127,416	10.26%
8	Indusind Bank		947.25	-	0.00%	135	127,879	135	127,879	10.30%
9	Maruti		4,215.65	-	0.00%	30	126,470	30	126,470	10.18%
10	Mindtree		1,410.15	-	0.00%	90	126,914	90	126,914	10.22%
11	Hexaware		240.45	-	0.00%	525	126,236	500	120,225	9.68%
	Total			1,256,815			(8,949)		1,241,855	

Checklist for this Strategy

The three most important aspects to watch out for are :

1. The large holding in question has started underperforming for an extended period (1-3 years)
2. The shares acquired must be of equal or better caliber and
3. The churning process should be gradual spread over several months so that price volatility is evened out.

We urge investors to try out this strategy and experience the benefits for themselves.

		Industry Weight (Before)	Industry Weight (After)
1	FMCG	74.80%	22.80%
2	Pharma	12.30%	23.68%
3	Cement	2.57%	2.60%
4	Auto	4.21%	4.26%
5	Aluminum	6.12%	6.19%
6	Bank	0.00%	20.56%
7	Software	0.00%	19.90%
		100.00%	100.00%

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