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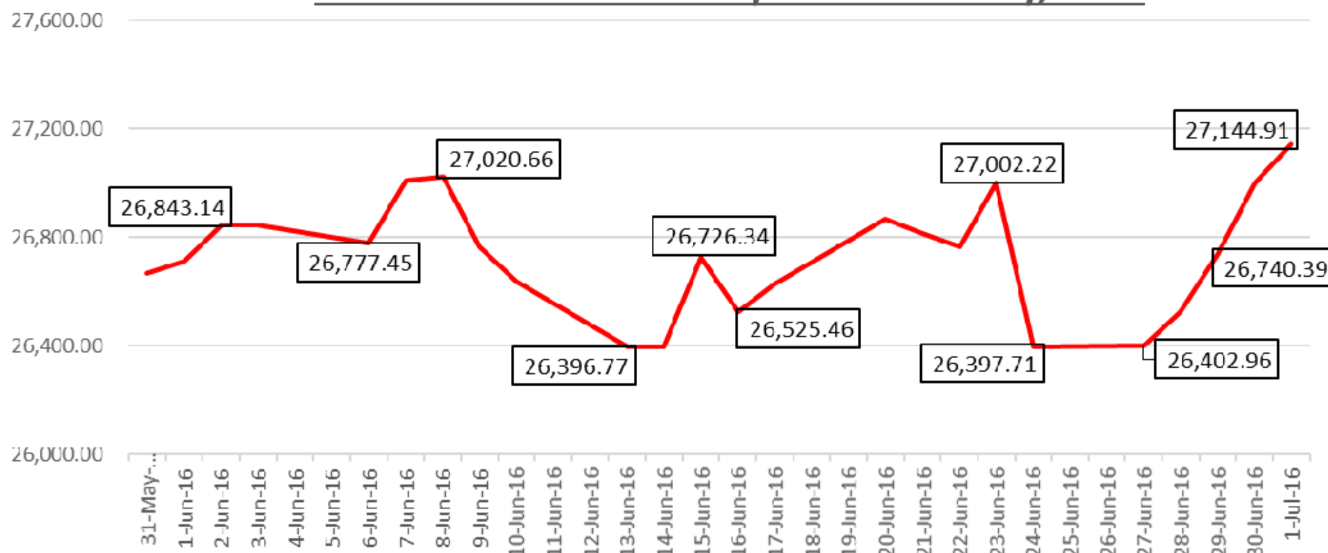
A Volatile June



Brexit Plays Havoc with Markets

June was an eventful month for markets around the globe. The most unexpected event took place – UK decided to leave the EU. Despite opinion polls showing a narrow margin between both outcomes - '*Remain*' and '*Leave*', markets choose to follow the bookies who were offering 4:1 odds for UK leaving the EU and when the actual verdict to leave the EU was declared, there was complete mayhem.

FIIs Show Restraint in Selling – a Sign of Maturity?

Neither the currency markets, nor the stocks and bonds market were set up for such a verdict. Most traders were not hedged and when the news hit on Friday 24th June, there was a massive selloff in global equities and the Pound Sterling. Our markets were also impacted with the Sensex cracking by 604.51 points to 26,397.71 down 2.24 %. However, the interesting aspect is that we did not correct as much as other foreign markets not just on the day of the result, but also the entire next week. FII selling was subdued at Rs. 577.49 crores for the day (24th June) and surprisingly a positive net buying figure of Rs. 1,342.79 crores over the next four trading sessions. The corresponding figures for domestic institutional investors (DFIs) was a positive Rs.114.94 crores for the 24th June and net sale of Rs. 600.73 crores for the next four trading days.

From these trading patterns, it would appear that despite a global risk off trade, local institutions were more concerned and bearish on Indian equities rather than their foreign counter parts. This is the exact opposite of what always happens then there is a risk off trade. Generally, it is the FIIs who are in panic sale mode and the DFIs, absorbing their selling pressure. This reversal of position is refreshingly positive for our markets. Optimists, such as us, would view this as the attainment of maturity on the part of foreign players operating in India.

Indian Markets and Global Risk Off Trade

Ever since the FIIs have begun investing in our country, whenever there is turmoil in any global financial market, our equities take a pounding. Despite nominal exposure to international trade, our stocks bore the brunt of foreign selling. It did not matter that only a few months later our indices recovered lost ground and scaled to new highs; but on that day / during that week, when the calamity was playing out abroad, we lost out and were subjected to intense volatility.

The argument was that all emerging markets were essentially risky and when the global risk profile increases, all risky assets, without distinction, were to be sold. This trend had only strengthened since the Lehman Brothers crisis in 2008 and in every financial crisis which followed, be it the European sovereign debt problem or Greek exit or a hard landing in China our equities were indiscriminately liquidated. No sound judgement was applied as to the real impact of that event on our economy and corporate profits. The simple hypothesis was that if any part of the world was in pain, sell India.

FIIs Change of Strategy

It is for the first time that we have seen a sense of restraint on the part of the FIIs. Their quantum of selling was lower this time, than when such events took place in the past. Buying on subsequent days shows their inclination to take advantage of the correction and increase exposure to Indian equities. We welcome this new trend and hope that it becomes a set pattern for future crisis elsewhere in the world with limited impact on India. The FIIs approach to India post Brexit shows maturity on their part and better understanding of our markets.

Selling Indian equities because of an internal event is acceptable, but selling Indian equities because of a meltdown outside our borders (with marginal negative impact here) is a difficult pill to swallow.

Clout of Domestic Institutions on the Rise

In this entire scenario, the role of the domestic investors is laudable. We did not see any panic on their part, flows into mutual funds remains solid and with every passing year, local institutional players are gaining stature and matching the strength of foreign institutional investors. A key evidence of this is their share of the total traded volume on our exchanges (see table). From an average of 20% in the years 2007 to 2012, their share has increased to 28 % from the period January 2013 to June 2016 (3 ½ years). The rise of domestic investors is a virtuous cycle which we hope gathers momentum. The stronger the DFIs, lesser the volatility caused by global events. Lower the volatility, more the domestic savings flow into equities (through DFIs). That's how the cycle plays out. What is even more noteworthy is that unlike past bull markets in India, this time the average retail and HNI investor is accessing the stock market through professional fund managers at mutual funds or portfolio managers. In the past, this class of investors tried to do it by themselves and lost humungous capital and then, for decades equities as an asset class was shunned.

Year	FII Volume (Rs. In crores)	DFI Volume (Rs. In crores)	DFI Volume as a %age of Total Institutional Volume
2007	15,68,479.70	3,55,125.46	18%
2008	14,89,581.70	3,49,564.20	19%
2009	11,60,595.10	3,65,649.80	24%
2010	13,38,961.20	3,40,483.90	20%
2011	12,03,288.70	2,50,559.90	17%
2012	11,89,516.80	2,84,797.54	19%
2013	14,69,637.00	5,98,210.26	29%
2014	19,20,196.09	7,56,545.26	28%
2015	23,07,885.36	8,75,165.15	27%
upto June 2016	10,39,402.35	4,27,261.11	29%

Our View on Stocks

From the tone and tenor of this newsletter, readers will have no doubt is guessing that our view on stocks remains positive. Without going into the reasons, which we have discussed threadbare over our earlier two communiques, our outlook on equities is bullish.

With Brexit out of the way and chances of a US Fed rate hike diminishing, there is every likelihood that FII flows will remain strong. Domestic inflows are anyway surging and that leads us to believe that a liquidity driven rally may ensue over the next few months.

Systemic Risks Remain

Although we do not see any new risks, does not mean there are none. The chances of some negative surprise is built into the system but long term investing means looking beyond these risks and taking advantage of the higher growth rates in our country. We await the June earnings season with great excitement and are reasonably certain that growth in corporate profits will improve even more than what was evident in the March quarterly results. We advise investing at every correction.

This month's Smart Investing Series is on "*Accountability*". In this piece, we discuss the merits of having a single person managing the portfolio.

The average returns generated by the portfolios under our management are as follows:

			ANNUALISED RETURNS AS ON			30/06/2016	From
Date From	**31/05/2016**	**31/03/2016**	**30/12/2015**	**01/07/2015**	**01/07/2014**	**01/07/2013**	**02/07/2011**
	1MONTH	**3 MONTH**	**6 MONTHS**	**1 YEAR**	**2 YEAR**	**3 YEAR**	**5 YEAR**
Elixir Equities Portfolio Performance	**2.95%**	**9.92%**	**4.04%**	**7.77%**	**17.58%**	**25.40%**	**16.76%**
SENSEX	**1.05%**	**6.68%**	**4.52%**	**-0.95%**	**3.11%**	**9.08%**	**5.53%**
NIFTY	**1.36%**	**7.24%**	**5.52%**	**0.90%**	**4.48%**	**10.65%**	**6.18%**
Performance comparison	**1.59%**	**2.68%**	**-1.48%**	**6.87%**	**13.10%**	**14.75%**	**10.58%**

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SMART INVESTING – IX
- Accountability

One Leader for Best Outcomes

How often we have heard "*Too many cooks spoil the broth*". This adage is true not only for cooking but many activities where judgement calls make the difference between success and failure. The destiny of a country is placed in the hands of a Prime Minister or President. Large corporations have only one CEO managing their affairs. There is but one captain of a ship and life threatening operations are carried out by only one doctor. Humans have realized that complex jobs based on decision making are best left to individuals who have the skillset and the experience. This principle is extendable to investing as well.

Scattered Buying and Selling

A common mistake made by investors is that they try to manage the portfolio by themselves without doing adequate homework or base their investment decisions on many advisors, such as their broker/s, friends, colleagues etc. Stock A is bought on the advice of the broker, stock B is recommended by a friend who himself/herself has bought the stock and stock C could have been purchased based on what the investor read in the pink papers or heard on a business channel. The end result, a hotchpotch portfolio, which is unbalanced, unstructured and leaves no trail as to who or what the source of the stock idea was in the first place (at the time of buying). No single person is accountable as many have played a role in stock selection.

To compound matters, investors do not monitor their portfolio on a regular basis and there is a *stop–start* approach to investing. The day markets make it to the newspaper headlines, he / she is encouraged to look at the portfolio and make a few trades based on

tidbits of information and advice. As the public interest in market wanes, so does that of the investor and the portfolio is relegated to the background and not seen for months on end. This is a fatal mistake and investors will never realize the full potential of equities with this approach.

One Portfolio, One Manager

Smart Investing is making a single person accountable for managing the portfolio. That person could be the investor himself. However, he / she will then have to devote the time and effort to track the fundamental news flow, analyze the financial reports, assess the risk profile of the company, build conviction and then make an informed investment decision which could be a buy or avoid. After buying, the position has to be closely monitored and the performance of the company tracked to ascertain that the stock remains a "*hold*" i.e. the prospects are bright enough to justify keeping the stock in the portfolio.

This is indeed a tall order and therefore the role of a portfolio manager / advisor / broker has only increased in recent times. Even in this scenario, Smart Investing is sticking to one advisor for a reasonably long period of time. This could be as long as three years as that should be the investment horizon of a stock.

Following Advice in Completeness

Another principle to follow is that the advice should be taken in totality and not piecemeal. If 10 stocks are recommended for buying, all 10 should be bought. Stock selection is not a perfect science, there is an element of uncertainty and the advisor / portfolio manager works with a projection / forecast of the business they are investing in. This leads to disparate returns for different stocks. There are many variables beyond the control of the advisor and even the company and while investing, and the complete future trajectory is unknown. The general experience is that not all stocks do well even though they are well researched. There are a few winners, a few losers and then a few stocks which remain static. If the investor uses his/her discretion on the stocks advised, then it could be that the stocks selected may not do well and the stocks left out could be multi-baggers. It is for this reason that the advice must be followed in completeness, not just for buying but also for selling.

Full Autonomy a Prerequisite for Accountability

Another benefit of this is that the advisor is left with no excuse for non-performance. If a few of his calls – be it buy or sell were not followed and these in fact turn out to be right, then the advisor could turn around and tell the investor that his/her portfolio has underperformed because the winning calls were not heeded by the investor. That leads to fracas, disenchantment and lost opportunities. The investor will also not be able to assess the true quality of the advice received and hence it is only sensible that all the recommendations provided are followed in a timely manner without exception.

Higher Strike Rate Works to Investor's Advantage

Lastly, all forecasting be it the weather, stocks, elections or even fashion / consumer trends are not always accurate. Pundits in this field get it right a few times and there are instances when they have to eat their words. So long as majority of these projections are correct, the expert is acknowledged to be a good one and followed by many who seek his /her knowledge and insight. By consistently following their predictions, one can benefit from their higher strike rate (i.e. more right calls than wrong calls).

Accountability and devolution of authority to manage the portfolio could yield exceptional returns particularly if the fund manager is astute and has understood the requirements and goals of the investor. Adequate checks and balances may easily be instituted so as to reduce risk and ensure that the investment objectives are met.

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