

The Art of Selling



“Well bought is half sold” – Howard Marks

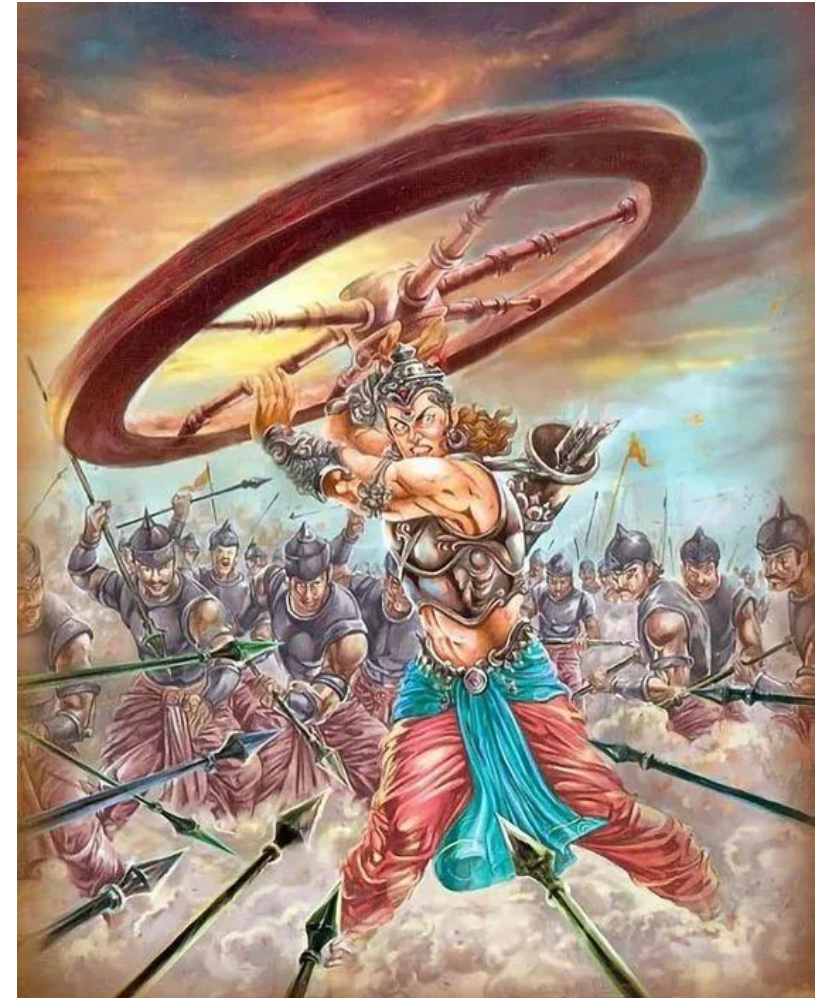
**Kuntal Shah
TIA Bullet Proof Investing Seminar
14th Sept 2024**

Inadequate Conditioning



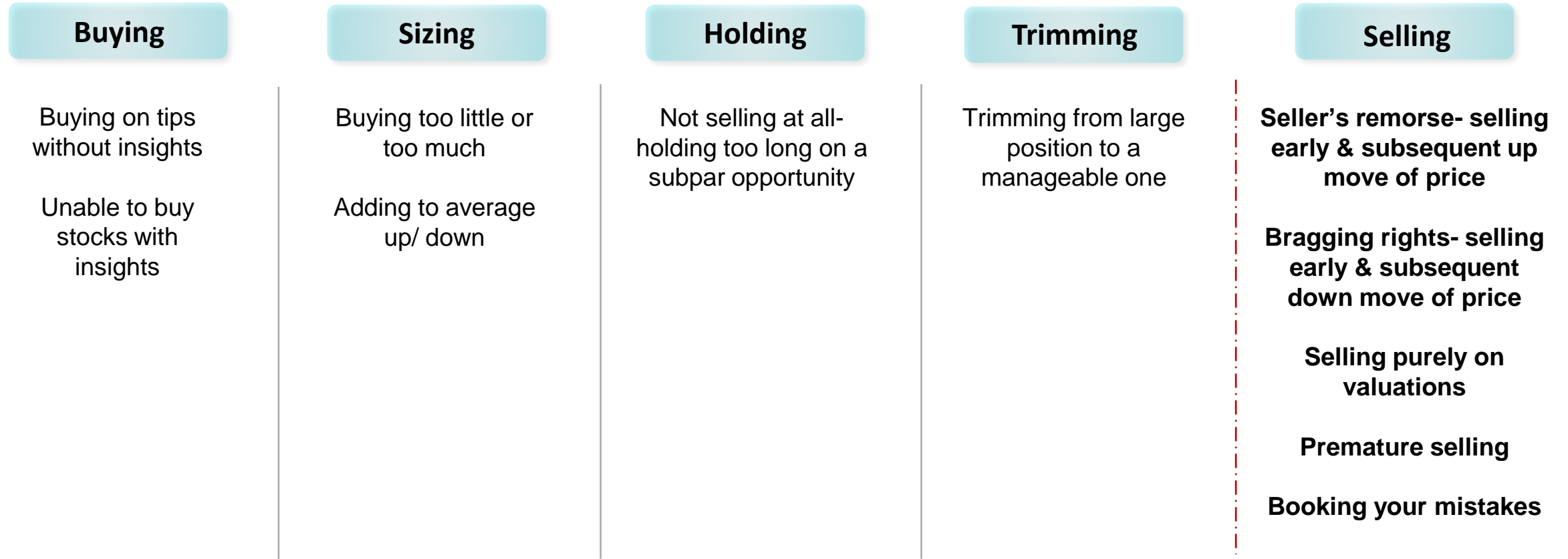
Since childhood we've been told what and when to buy; very little has been said about selling

Chakravyuh of Investing- Do you want to be Abhimanyu?



Take control of your exit: don't let the market dictate unfavorable terms

The Journey from Start to Finish is Full of Commonly Recurring Potholes



You can't get all decisions right- avoiding blow ups is important

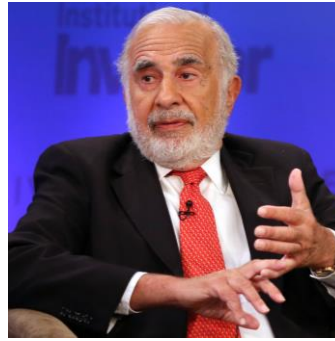
You Can't Play Someone's Else's Game



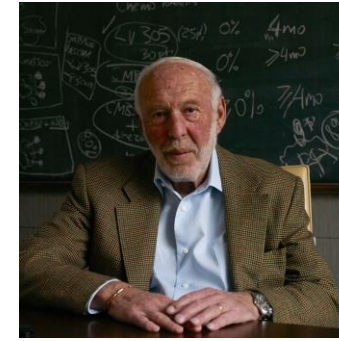
George Soros
Speculator



Jesse Livermore
Speculator



Carl Icahn
Activist



Jim Simons
Quantitative



Howard Marks
Distressed Securities



Paul Singer
Vulture



Joel Greenblatt
Special Situations



Benjamin Graham
Cigar Butt



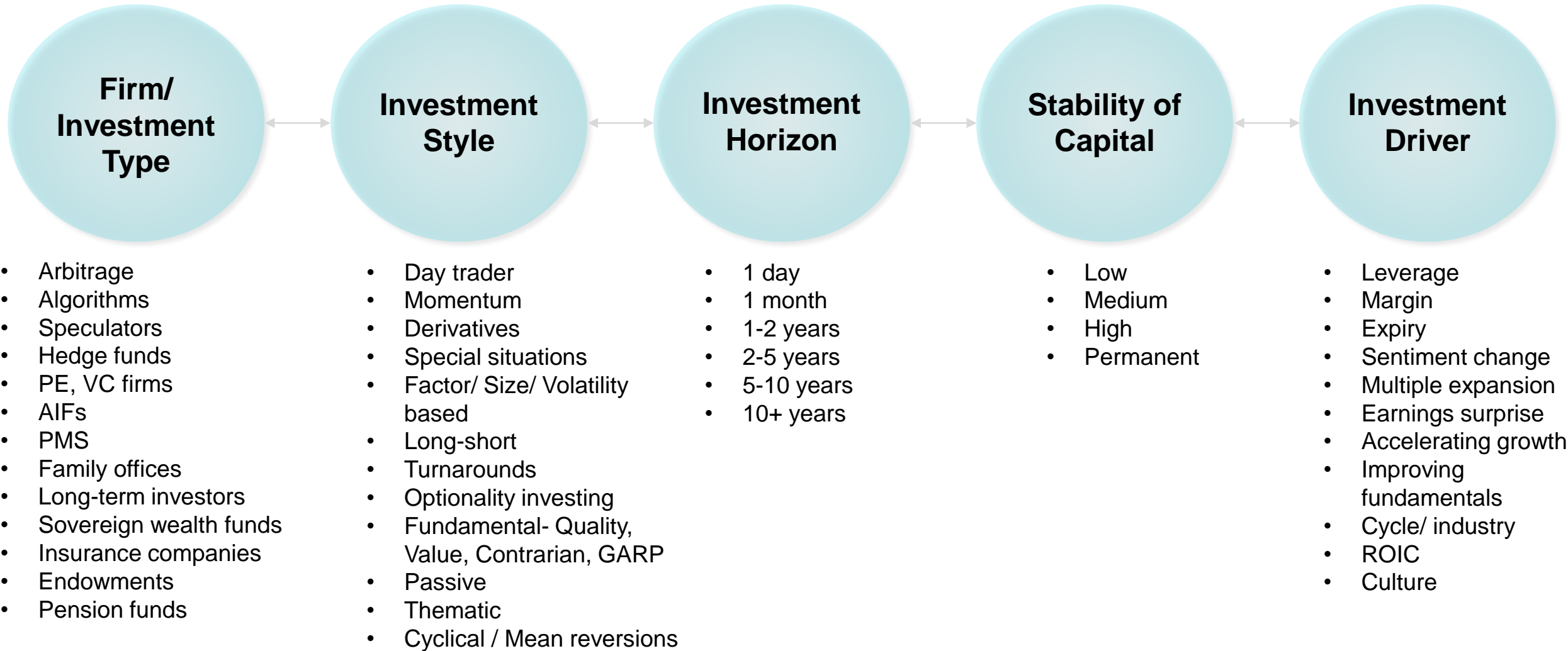
Charlie Munger
Moat & Franchise



Warren Buffett
Long Term Investing

“If you play games where other people have the aptitudes & you don't, you're going to lose.” — **Charlie Munger**

Many Ways to Skin the Cat



Everyone has a different question paper in life, so answers can not be copy pasted

Investing Jungle

Species		Buying	Selling
	Connoisseurs	Invest in quality businesses that generate steady earnings	Will sell losers quickly, & hold on to winners for long
	Raiders	Buy & sell quickly to make a quick buck	Book profits quickly, often leave a lot of money on the table
	Assassins	Set a stop loss when buying and stay unattached	Sell when the stop loss is triggered or if no recovery happens within a set time
	Hunters	Buy smaller initial positions, size up during dips	Sell when conviction lessens for a valid reason
	Rabbit	Buy based on first impression, have anchoring bias	Avoid selling in loss
	Stag	Buy only IPOs	Sell on achieving desired profits
	Whale	Buy in large quantities, moving the market	Sell in large quantities, moving the market
	Tortoise	Slow to buy, long-term investors	Slow to sell
	Pig	Chase tips, place impulsive, high-risk bets	Poorly timed exits
	Wolf	Buy with intention of manipulating market	Sell unethically to fill their own pockets
	Ostrich	Buy based on positive cues	Ignore negative cues & avoid selling in loss
	Sheep	Buy if the herd is buying	Sell if the herd sells
	Bear	Exit shorts, remain passive in bullish markets	Sell based on negative, pessimistic cues
	Bull	Buy aggressively in bullish markets	Exit when signs of market downturn

Investors act like different animals at different times based on changing perceptions of risk & rewards

Investors Behavior Reflects Emotions not Fundamentals Alone



Most investors start paying attention to portfolios & seek security blanket of cash after losses begin to pile up

Finding the Right Balance: Dealing with Contradictions

Risk	Reward
Confidence	Humility
Concentration	Diversification
Silo Style/Limited Mandate	Look For Wide/Flexible Mandate
Aggressiveness	Conservatism
Hyperactive	Lazy
Risk Seeking	Disciplined/Risk Averse
Narrow Specialization	Multidiscipline
Breadth	Depth
Rising Valuation/Dwindling Opportunity Estimate	Buying too Soon on Way Down
Action	Inaction
Fully Invested	Large Cash
I Know Everything	I Don't Know Everything

Confidence in Foreknowledge	Skeptical Regarding Foreknowledge
Invest for One Outcome	Hedge Against Uncertainty
Lever Heavily	Avoid or Limit Leverage
Target Maximum Gains	Emphasize Avoidance of Losses
Conviction on Narrow Outcome	Probability of Range of Outcomes
Innovate	Optimize
Long Term	Short Term
Helicopter View	Tree View
Fear of Missing Opportunity	Fear of Losing Capital
Signal	Noise
Mean Reversion	This Time is Different
Timing the Market	Time in the Market

Don't Clone without Context

“The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, & then earns little or no money. Think airlines.”

Berkshire Hathaway owned Delta, American, United & Southwest Airlines from 2016 to 2018



“Diversification is protection against ignorance”
“An idiot could diversify their portfolio”

Berkshire Hathaway is one of the most diversified conglomerate in the world.

“Be greedy when others are fearful” is practiced, but “be fearful when others are greedy” is forgotten

"In our view, however, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal."

Berkshire Hathaway is one of the largest underwriters of derivative contracts

"Change is more rapid & unpredictable in technology relative to the broader economy. To me, all technology sectors look like 7-foot hurdles."

Apple & IBM became part of Berkshire Hathaway's portfolio

**“The young man knows the rules, the old man knows the exceptions.”
— Oliver Wendell Holmes, Sr.**

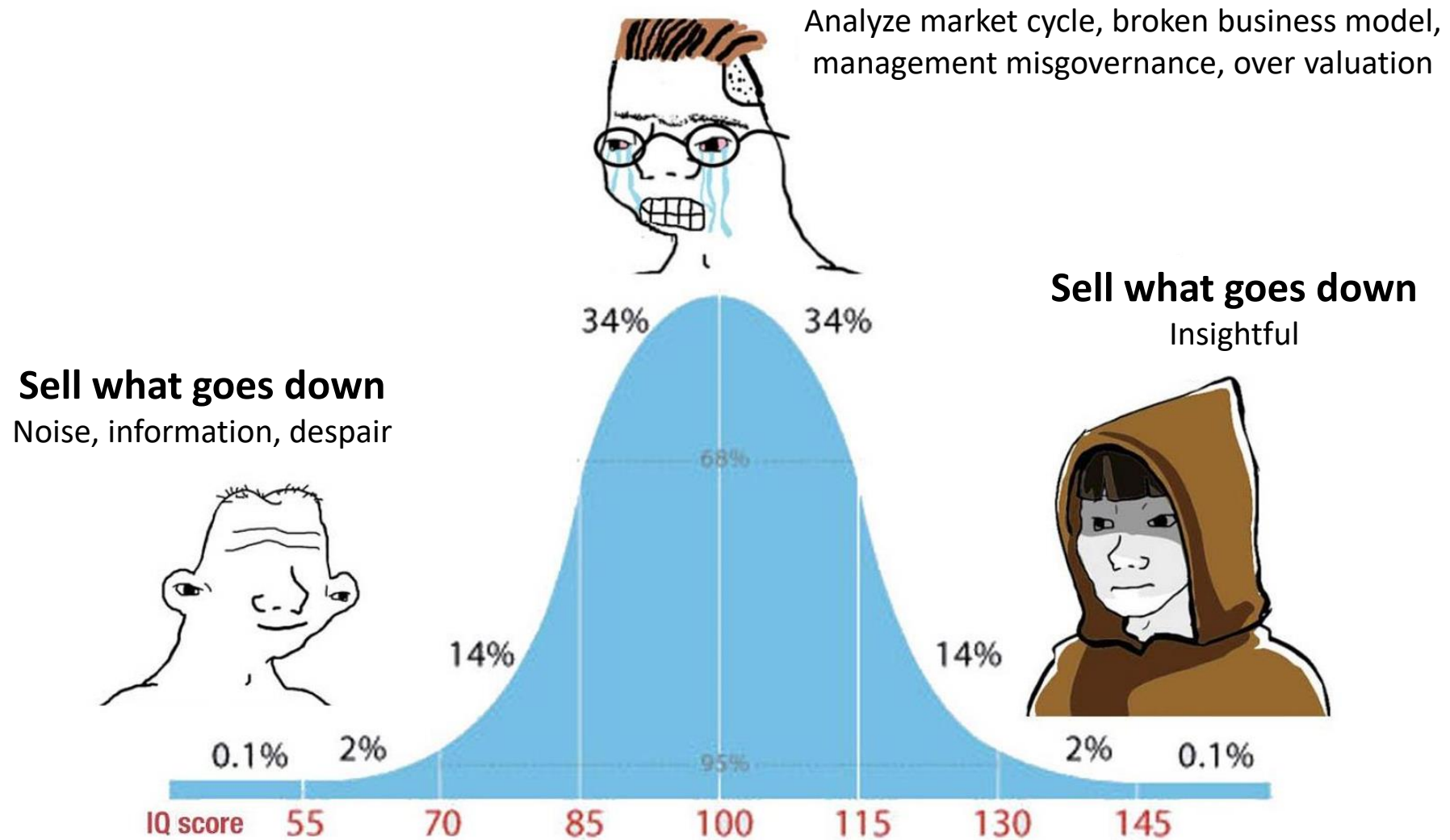
“Our favorite holding period is forever.”-
Warren Buffett

Holding Period Lengths & Number of Stocks Held by Berkshire Hathaway			
Holding Quarters	Number of Stocks	Percentage	Cumulative Percentage
1	39	16.96	16.96
2	29	12.61	29.57
3	16	6.96	36.52
4	55	23.91	60.43
5-10	34	14.78	75.22
10-20	20	8.70	83.91
20-30	15	6.52	90.43
30-40	13	5.65	96.09
40-50	2	0.87	96.96
>50	7	3.04	100
Conclusion	230	100	

“An investor should act as though he had a lifetime decision card with just twenty punches on it.”-
Warren Buffett

Do What They Say (20 Punch Card Investing) vs Do What They Do (Churn Baby Churn) ?

Dummies Guide to Selling



Complexity isn't always the answer

Selling is the Blind Spot for Investors

Sell reports on Bloomberg
Pre MFID- 1.9%
Post MFID- 7%

Brokers have conflict of
interest in investment banking
& management access

Financial content focused on
buy: appeals to a wider
audience

Psychological reasons:
Selling is emotionally difficult
& brings closure



“SELL” is missing from the layman’s lexicon of investors

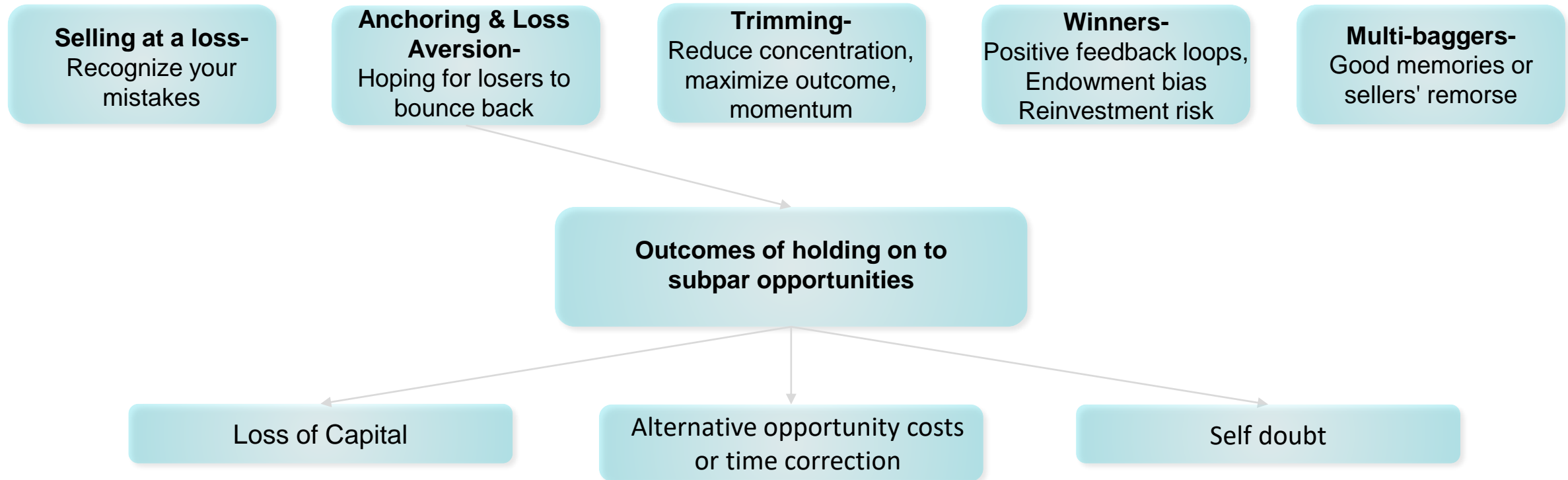
Selling is Hard but Important



“The toughest investment decision is the decision to sell” – John Neff

Why Investors are Careful Buyers But Careless Sellers

Cognitive aspects of selling



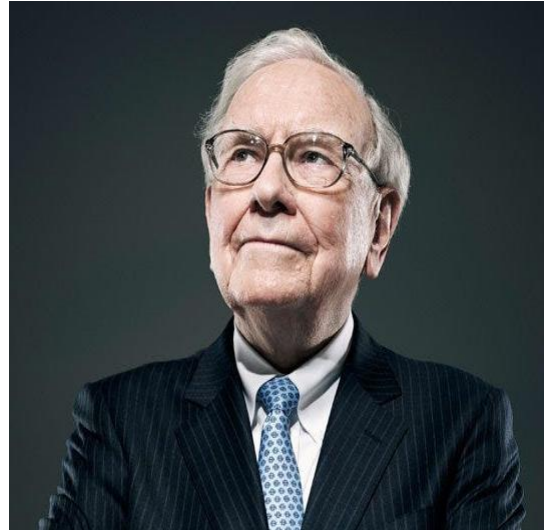
Only the very best think as hard about exiting positions as entering them

Even the Best Err on Selling



Stanley Druckenmiller

- Lost \$0.6 bn by shorting tech, later recovered by buying tech stocks.
- However, he sold tech stocks but young folks in the company were doing very well.
- Impulsively invested \$6 bn in tech stocks at their peak, leading to a \$3 bn loss within six weeks.



Warren Buffett

- Sold Delta Air Lines, United Airlines, American Airlines & Southwest Airlines in May 2020
- After he sold, all the 4 airlines companies went up by almost 150-200% in a year's time.

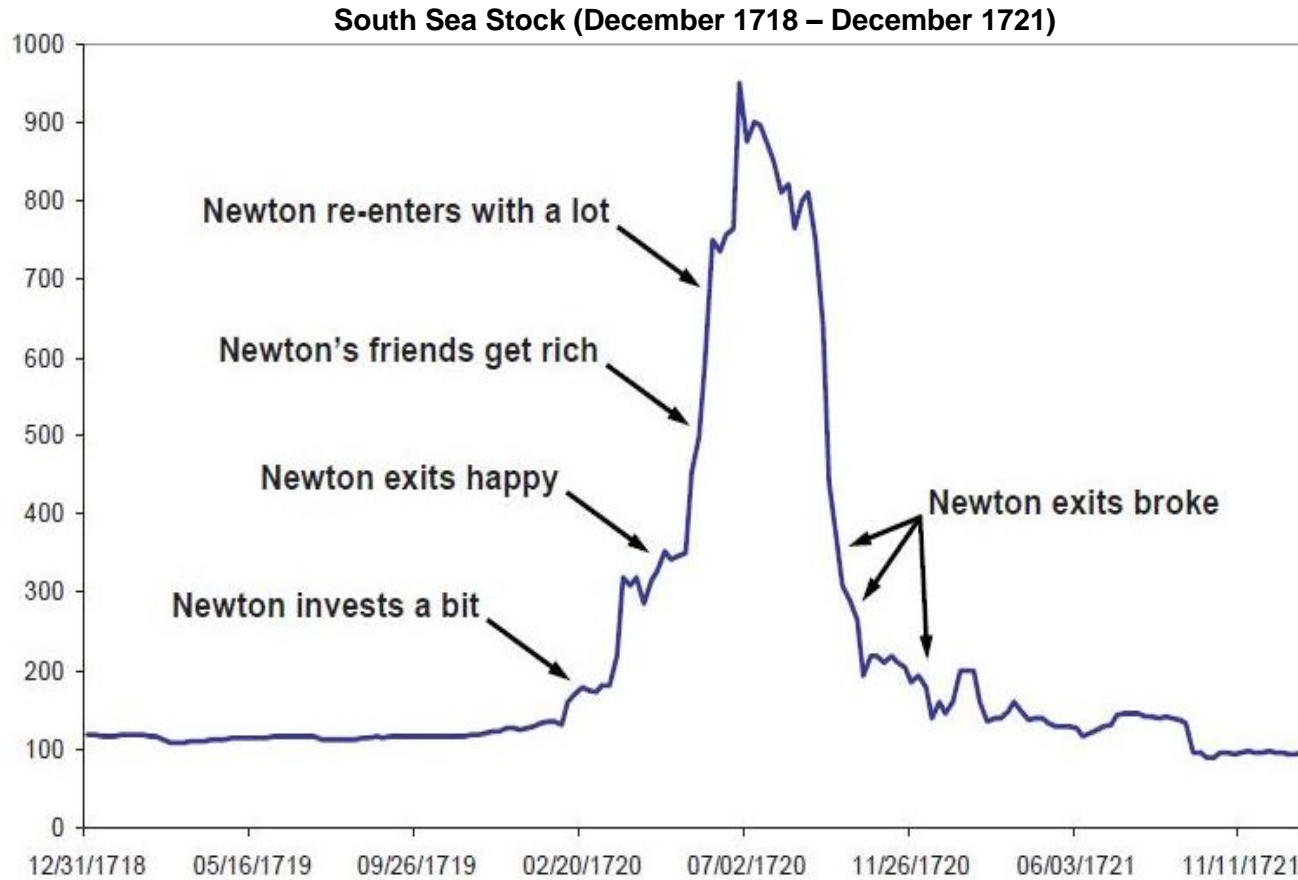


Bill Gross

- Placed a large bet on US Treasury-German bund spread narrowing. Held onto the position despite prolonged losses
- Fund AUM dropped by 44%

In selling decision investors are dealing with the good, the bad & the ugly aspects of the portfolios

“I can calculate the movement of the stars, but not the madness of men” – Isaac Newton



“There is nothing as disturbing to one’s well-being & judgment as to see a friend get rich.” – **Charles P. Kindleberger**

Selling stock in profit



Stock goes up after selling

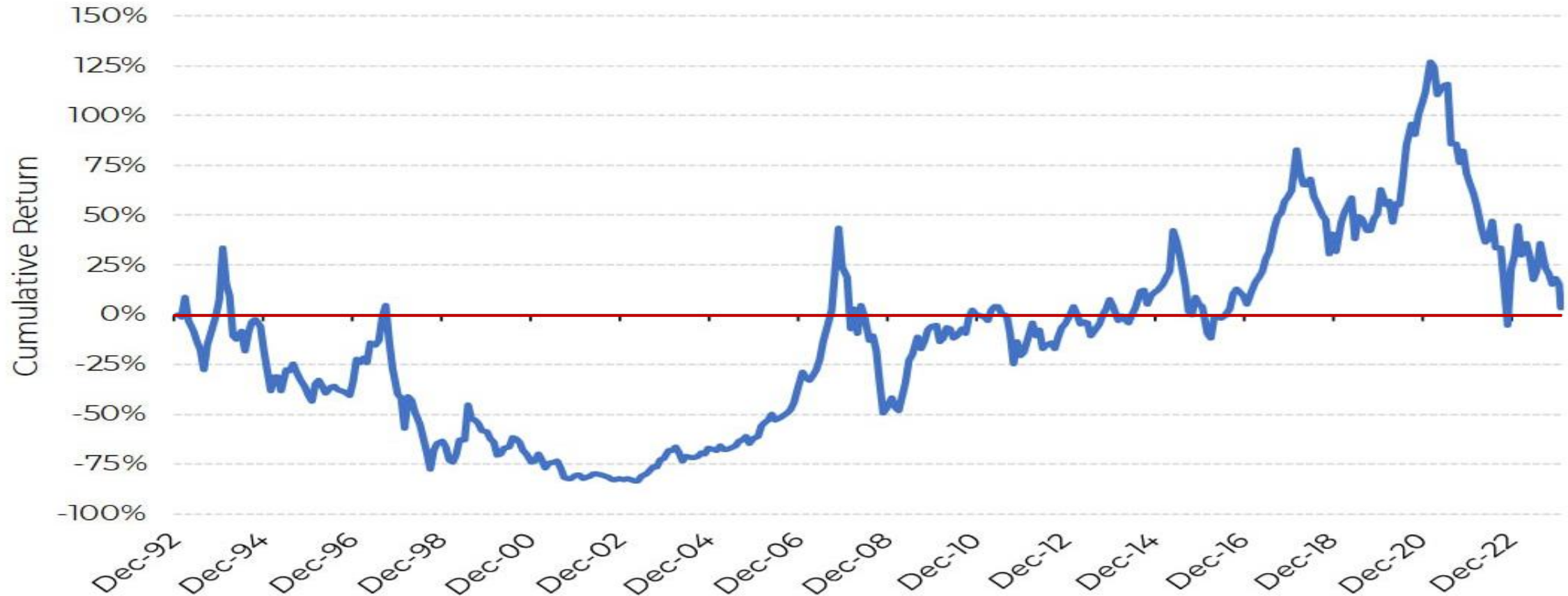


"Many shall be restored that now are fallen, & many shall fall that are now in honor." – Horace

1986	1996	2006	2016	Current
ACC	ACC	ACC	Adani Ports	Adani Ports
Ballarpur Industries	Aditya Birla Nuvo (now Grasim)	Ambuja Cements	Asian Paints	Asian Paints
Bharat Forge	Ballarpur Industries	Bajaj Auto	Axis Bank	Axis Bank
Bombay Dyeing	Bharat Forge	BHEL	Bajaj Auto	Bajaj Finance
Ceat Tyres	Bombay Dyeing	Bharti Airtel	Bharti Airtel	Bajaj Finserv
Century Spinning	Ceat Tyres	Cipla	BHEL	Bharti Airtel
Nestle	Century Textiles	Dr Reddy's Labs	Cipla	HCL Technologies
Glaxosmithkline	Cummins India	Grasim Industries	Coal India	HDFC Bank
Great Eastern Shipping	Futura Polyesters	HDFC Bank	Dr Reddy's Labs	Hindustan Unilever
GSFC	Glaxosmithkline	Hero Motocorp	GAIL	ICICI Bank
Gwalior Rayon (now Grasim)	Grasim Industries	Hindalco Industries	HDFC	IndusInd Bank
Hindustan Unilever	Great Eastern Shipping	Hindustan Unilever	HDFC Bank	Infosys
Hindustan Motors	GSFC	HDFC	Hero Motocorp	ITC
Hindalco Industries	Hindalco Industries	ICICI Bank	Hindustan Unilever	JSW Steel
Indian Hotels	Hindustan Motors	Infosys	ICICI Bank	Kotak Bank
Indian Rayon (now Grasim)	Hindustan Unilever	ITC	Infosys	Larsen & Toubro
ITC	Indian Hotels	Larsen & Toubro	ITC	Mahindra & Mahindra
Kirloskar Cummins	ITC	Maruti Suzuki India	Larsen & Toubro	Maruti Suzuki
Larsen & Toubro	Larsen & Toubro	NTPC	Lupin	Nestle
Mahindra & Mahindra	Mahindra & Mahindra	ONCC	Mahindra & Mahindra	NTPC
Mukand	Mukand	Ranbaxy Laboratories	Maruti Suzuki	Power Grid Corporation
Pieco Electronics (now Philips)	Nestle India	Reliance Industries	NTPC	Reliance Industries
Premier Automobile	Philips	Reliance Infrastructure	ONGC	State Bank of India
Reliance Industries	Premier Automobile	Satyam Computer	Reliance Industries	Sun Pharma
Siemens	Reliance Industries	State Bank of India	State Bank Of India	TCS
Tata Power	Siemens	TCS	Sun Pharma	Tata Motors
Tata Steel	Tata Motors	Tata Motors	Tata Motors	Tata Steel
TELCO (now Tata Motors)	Tata Power	Tata Power	Tata Steel	Tech Mahindra
Voltas	Tata Steel	Tata Steel	TCS	Titan
Zenith	Voltas	Wipro	Wipro	Ultratech Cement

Buy & Hold does not mean Buy & Forget

MSCI China has delivered a 0% return in nearly 32 years since inception



Buy & hold investing will face limitations as more businesses become cyclical & economic cycles shorten

Buy & Hold does not mean BAAP

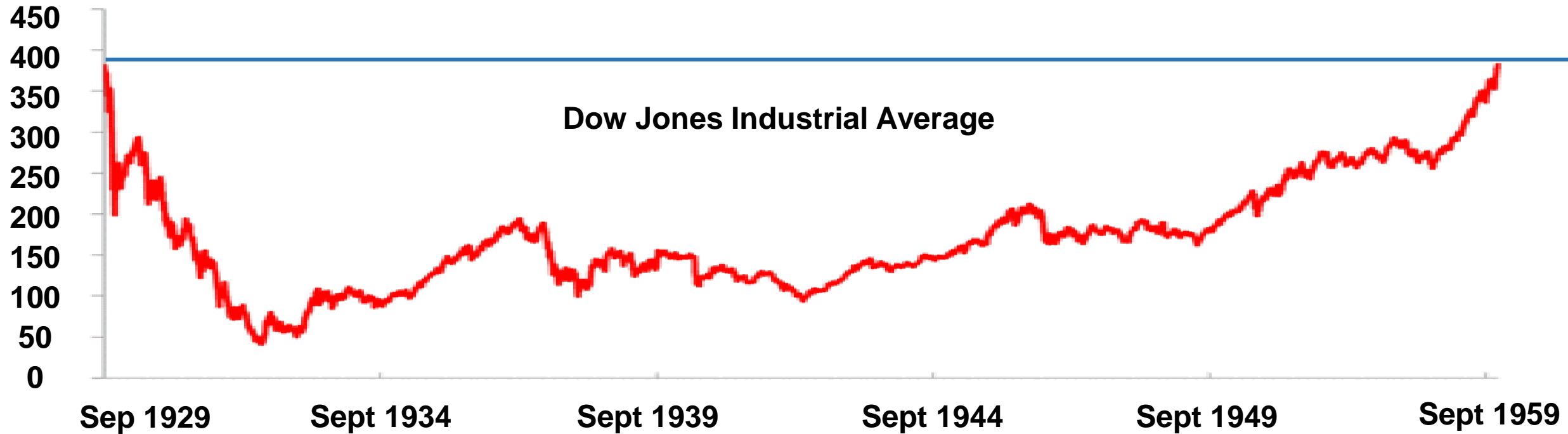
The lost generations- 34 painful years



“Remember, no investment is forever.”– Sir John Templeton

Buy & Hold does not mean wait for Break Even

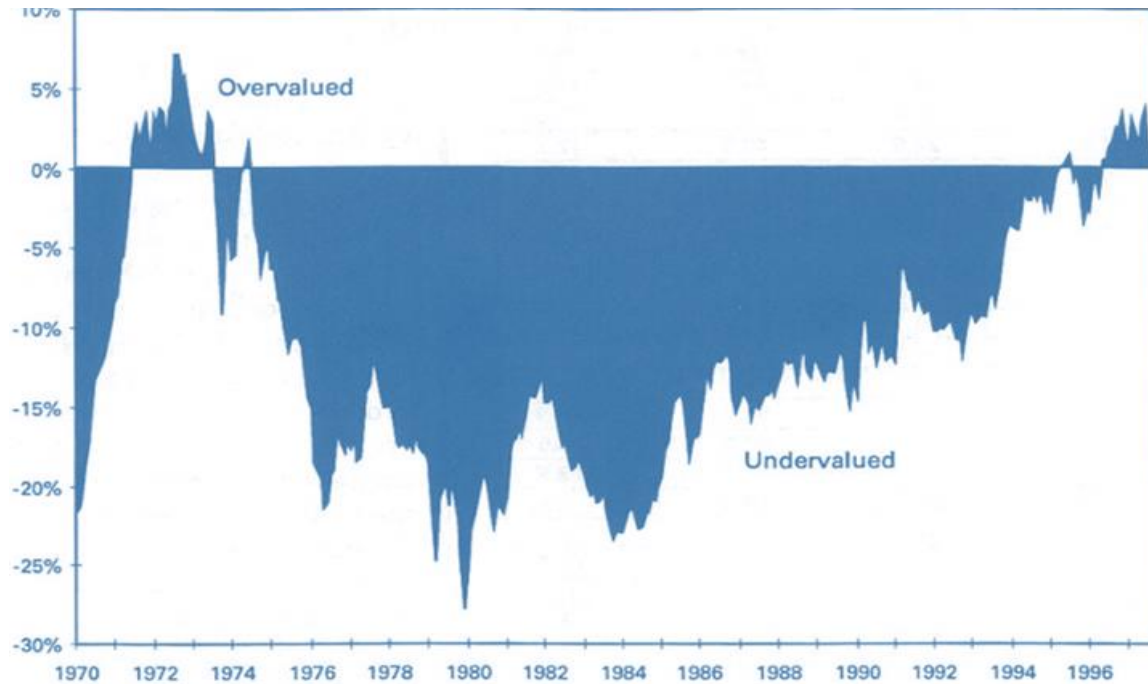
It took 25 years for the index to recover to 1929 levels



“Waiting to sell a loser until you are back to even is often more costly in time & capital than taking the loss today & moving the remaining capital into something you believe in.”- **Ian Cassel**

Bubble of Nifty Fifty Stocks 1973 – 1974

Valuation of Equally-Weighted Nifty Fifty Portfolio
Relative to the S&P 500; Dec 1970 through Aug 1998



Date Started: 1/11/1973

Date Ended: 12/06/1974

Total Days: 694

Starting DJIA: 1051.70

Ending DJIA: 577.60

Total Loss: -45.1%

Expensive Stocks

Company	Starting P/E	10- Yr Annualized Return
McDonald's	86	1.75%
Int'l Flavors	76	-5.24%
Walt Disney	82	-3.78%
J&J	62	1.72%
Coca Cola	48	-6.93%
Eli Lilly	46	-0.72%
Merck	46	-0.23%

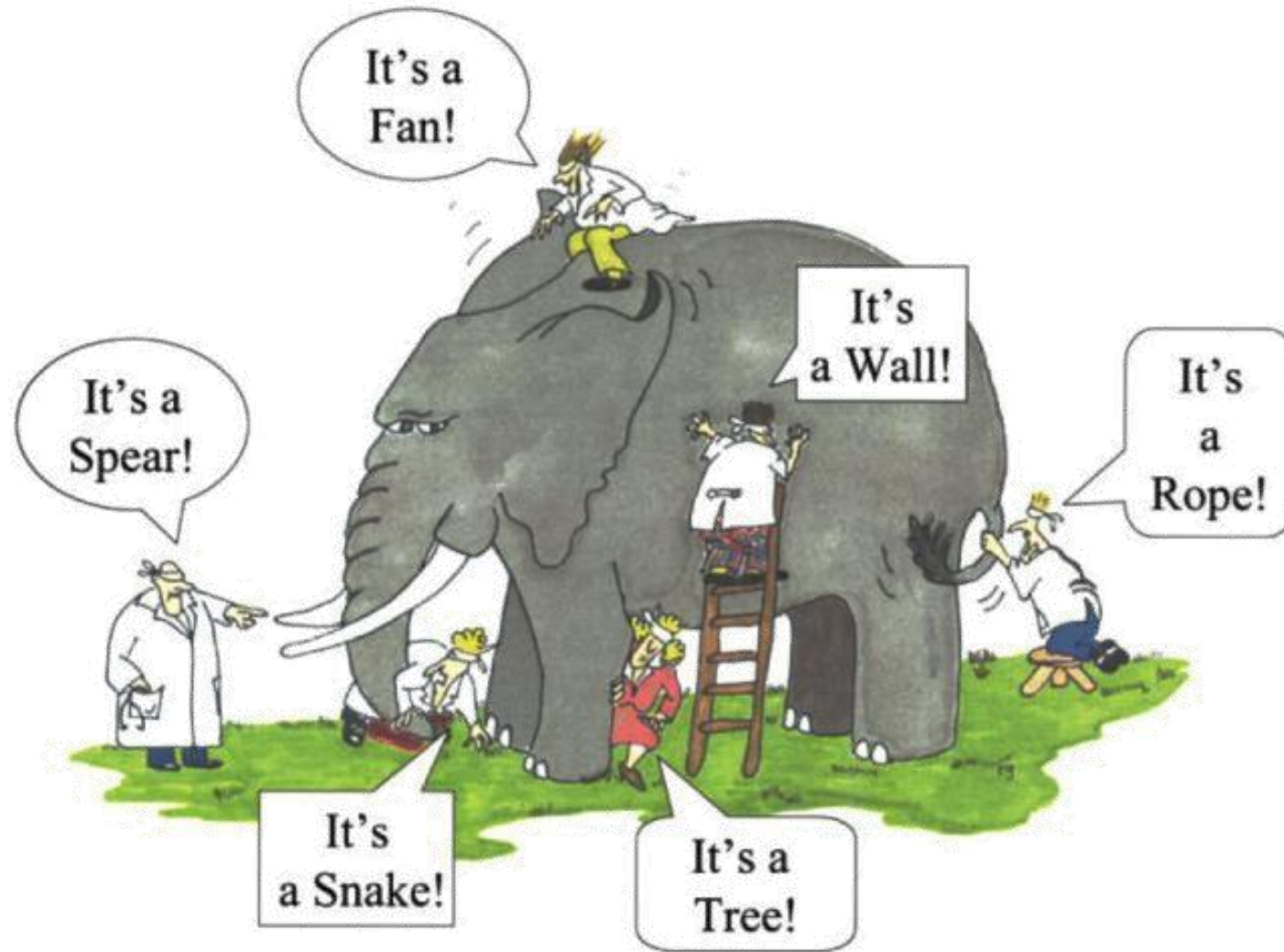
Nifty 50 Stocks

Security	PE Multiple 1972	PE Multiple 1980
Sony	92	17
Polaroid	90	16
McDonald's	83	9
Intl. Flavors	81	12
Walt Disney	76	11
Hewlett Packard	65	18

Vantage Points for Selling

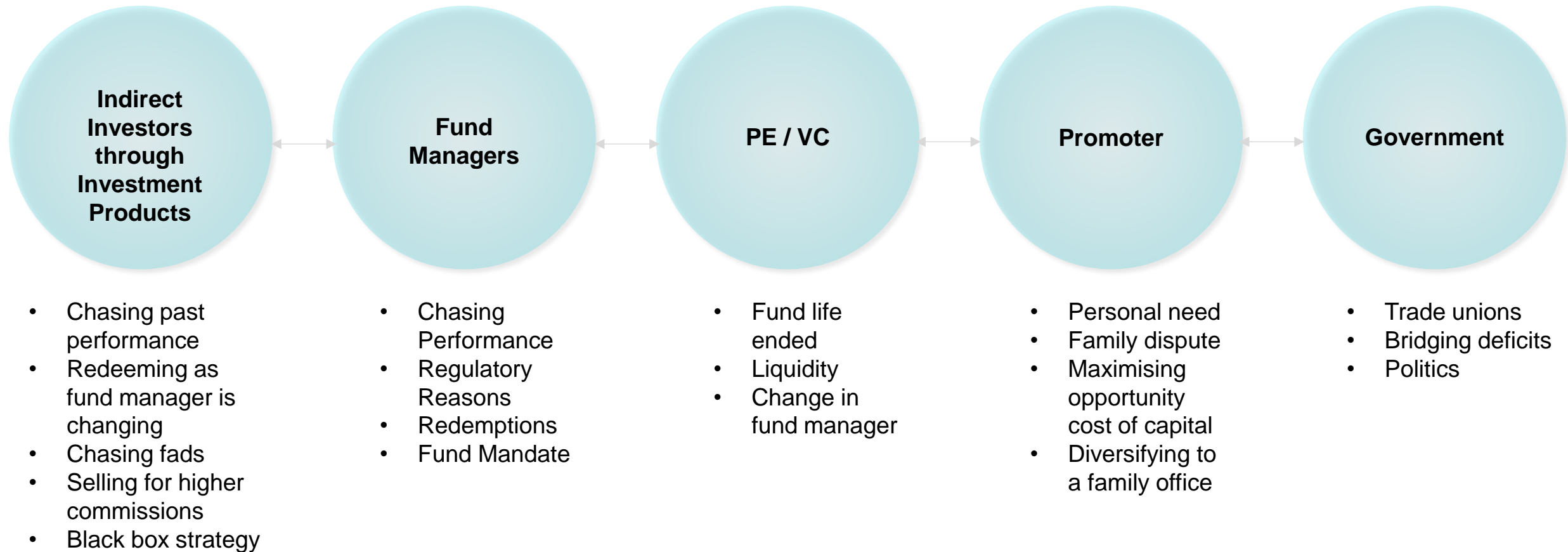
Selling isn't a "one-size-fits-all" decision

"The whole is greater than the sum of its parts." – Aristotle



"It's not what you look at that matters, it's what you see." - **Henry David Thoreau**

Vantage Points from Different Personas & Perspectives



"Investing isn't about what everyone else is doing; it's about what fits your needs." – **Howard Marks**

Indirect Investors through Investment Products

Higher Fees

When fees don't go down as AUM balloons disproportionately- it's a decision to sell

Black Box Strategy

Bernie Madoff was trading so many options, he out-traded the entire market, **moving more than what existed**. He operated in an imaginary market, giving investors inflated returns

Chasing Fads

Fund manager starts chasing fads- SPACs, Thematic Funds

"You have to understand, most of these people are not trying to make money for their clients; they're trying to make money for themselves." – **Carl Icahn**

Look Through a Portfolio, Worse than an ETF

Mis-selling via Customized Confusion

Wealth Manager PF	Usual Number of Companies	Degree of Overlap	Effective Number of Companies	Pay Fees
Equity				
3 Equity MF	3 X 70 = 210	30%	168	0.75-2%
3 PMS/ AIF	3 X 20 = 60	10%	56	2%
Non-Equity				
3 Structured Product/MLD	3 X 3 = 9	-	-	2.5-5%
3 Fixed Income Funds	3 X 30 = 90	30%	84	<1%
Most important cash allocation decision outsourced to investor				

Keep it Simple Stupid

ETFs Fees <1%
1 Large Cap ETF
1 Mid Cap ETF
1 Small Cap ETF
1 Fixed Income Fund

"Wall Street loves the business of making complex things simple for themselves & complicated for you." – **John Bogle**

Form is Temporary but Class is Permanent

The top ranked Mutual Fund scheme in 2018-2020 is ranked 190th for 2021-2023.

The top ranked Mutual Fund scheme for 2021-2023 was at 160th ranking in 2018-2020.

2014-16	2017-19	2015-17	2018-20	2016-18	2019-21	2017-19	2020-22	2018-20	2021-23
1	6	1	175	1	22	1	165	1	190
2	30	2	20	2	17	2	161	2	192
3	168	3	161	3	63	3	53	3	70
4	95	4	68	4	184	4	33	4	189
5	148	5	139	5	84	5	166	5	13
6	116	6	177	6	163	6	41	6	175
7	160	7	64	7	98	7	94	7	93
8	130	8	95	8	97	8	164	8	126
9	68	9	171	9	109	9	109	9	5
10	154	10	156	10	102	10	69	10	104
11	147	11	92	11	2	11	87	11	193
12	166	12	122	12	39	12	149	12	195
13	167	13	154	13	105	13	152	13	153
14	129	14	9	14	156	14	54	14	147
15	144	15	173	15	85	15	162	15	106
16	109	16	90	16	106	16	123	16	2
17	137	17	93	17	59	17	17	17	151
18	98	18	116	18	144	18	105	18	152
19	120	19	71	19	49	19	95	19	150
20	113	20	147	20	119	20	146	20	89
21	163	21	100	21	57	21	145	21	128
22	104	22	129	22	171	22	147	22	187
23	88	23	172	23	117	23	122	23	191
24	157	24	142	24	182	24	125	24	158
25	85	25	85	25	38	25	179	25	98
26	66	26	32	26	15	26	120	26	173
27	133	27	135	27	23	27	49	27	100
28	164	28	102	28	77	28	195	28	196
29	87	29	127	29	169	29	21	29	154
30	67	30	134	30	46	30	45	30	55

2014-16	2017-19	2015-17	2018-20	2016-18	2019-21	2017-19	2020-22	2018-20	2021-23
145	1	140	1	167	1	113	1	160	1
99	2	143	2	11	2	158	2	16	2
NA	3	77	3	79	3	67	3	166	3
42	4	NA	4	89	4	149	4	133	4
40	5	56	5	93	5	159	5	9	5
1	6	139	6	88	6	166	6	96	6
53	7	79	7	118	7	41	7	147	7
148	8	142	8	138	8	125	8	173	8
141	9	14	9	NA	9	90	9	170	9
143	10	114	10	137	10	109	10	169	10
66	11	85	11	NA	11	148	11	175	11
43	12	43	12	106	12	NA	12	5	12
118	13	131	13	166	13	157	13	107	13
NA	14	NA	14	70	14	154	14	122	14
89	15	NA	15	26	15	135	15	116	15
54	16	120	16	49	16	76	16	153	16
111	17	128	17	2	17	17	17	140	17
125	18	130	18	149	18	96	18	NA	18
NA	19	129	19	77	19	133	19	86	19
138	20	2	20	148	20	95	20	NA	20
137	21	121	21	90	21	29	21	118	21
136	22	152	22	1	22	NA	22	131	22
83	23	89	23	27	23	NA	23	77	23
NA	24	125	24	140	24	NA	24	68	24
102	25	70	25	NA	25	155	25	92	25
57	26	136	26	160	26	128	26	172	26
105	27	157	27	34	27	NA	27	164	27
61	28	137	28	142	28	68	28	87	28
123	29	117	29	134	29	88	29	63	29
2	30	105	30	82	30	147	30	NA	30

■ Lower than 30

Shooting Stars versus Setting Suns

Simple But Not Easy

Mis-selling via Customized Confusion



Choe Daehan

Keep it Simple Stupid



Yusuf Dikec

“As a full-time investor (100% money is my own) selling is as important to me as buying, for I make money “only” when I sell the stock; unlike a febezzler / fakexpert who periodically collects commission/ fee/salary for paper-profits / AUM size / simply showing up for work.” – **Value Niveshak**

Fund Manager is Selling

Chasing Performance

"While high turnover isn't inherently negative, consistently high turnover may indicate that a fund manager is chasing momentum stocks."

Fund	Portfolio Turnover (%)
A	557
B	537
C	456
D	405
E	396
F	392
G	365
H	335

Regulatory Reasons

A fund manager can invest up to 10% of the scheme's total portfolio value in a single stock

Fund Mandate

Demerger of a smaller company with a lower market cap may not be fitting to the fund strategy anymore

Fund Closure/Redemptions

UTI Unit Scheme 64 debacle-

In 2001, huge decline in stock prices, led to mutual fund withdrawals. UTI had to shut down its US 64 scheme to pay up the unit holders

"The institutional imperative exists & resists any impulse to fight it. Rationality frequently loses to the institutional imperative." – **Warren Buffett**

A PE or VC is Selling

Fund Life Ended

Elevation Capital V Ltd selling all their holdings as fund life ended

Company		Quantity	Price
Arman Financial 06 Jun, 2024	SELL	1,29,000	2,291
Arman Financial 27 Dec, 2023	SELL	94,000	2,542
Arman Financial 26 Dec, 2023	Sell	2,92,470	2,526
Tracxn Technolo. 08 Dec, 2023	SELL	7,66,446	95.9
Tracxn Technolo. 08 Dec, 2023	SELL	8,00,000	96.8
Tracxn Technolo. 07 Dec, 2023	Sell	5,80,000	94.8
Tracxn Technolo. 10 Nov, 2023	SELL	20,00,000	79.1
KDDL Ltd 01 Jun, 2023	SELL	3,37,357	1,071

Liquidity Needs

PE exits in India surge 355% YoY in first quarter of 2024, hit 50 deals

Liquidity flows easily when the market's up but tightens when it's down.

Change in Fund Manager

Mathew Cyriac, the former co-head of Blackstone's PE business in India, has bought a 39.96% stake in Gokaldas Exports from Blackstone for Rs 58.61 crore

He also acquired a 51% controlling stake in International Asset Reconstruction Co. Pvt. Ltd (IARC) from Blackstone.

“The best thing about public markets is also the worst thing about public markets, You can change your mind. You can sell.” – Ian Cassel

Promoter is Selling

Personal Need

Adani group promoters sold \$9 bn worth of shares in 2023-24 to deleverage at promoter level

Family Dispute

Usha Martin family feud between Prashant Jhavar & Rajeev Jhavar causes former to sell 9.6% stake through their holding company, Peterhouse Investments

Maximizing Opportunity Cost of Capital

Promoter selling in the last 18 months is at \$23 bn vs \$3 bn in CY19

Diversify from single holding to family office

Azim Premji, founder of Wipro started family office- Premji Invest

There are many reasons to sell but there is only one reason to buy

Government is Selling

Trade Unions

2018 - The trade unions have opposed the stake sale by the Centre in **Coal India** to any extent beyond the regulatory requirement of 25 % of floating stock for listing.

Bridging Deficits

In 2018-19, when the Nifty was ~11,500, the government collected Rs 84,972 cr from CPSE disinvestment

Today, when Nifty is at 23,500 the government is not divesting

Politics

“Will coalition politics put a question mark on the government's disinvestment plans?” – Mint

“New govt not in favor to sell stake in OMCs, says Oil Minister Puri” – The Economic Times

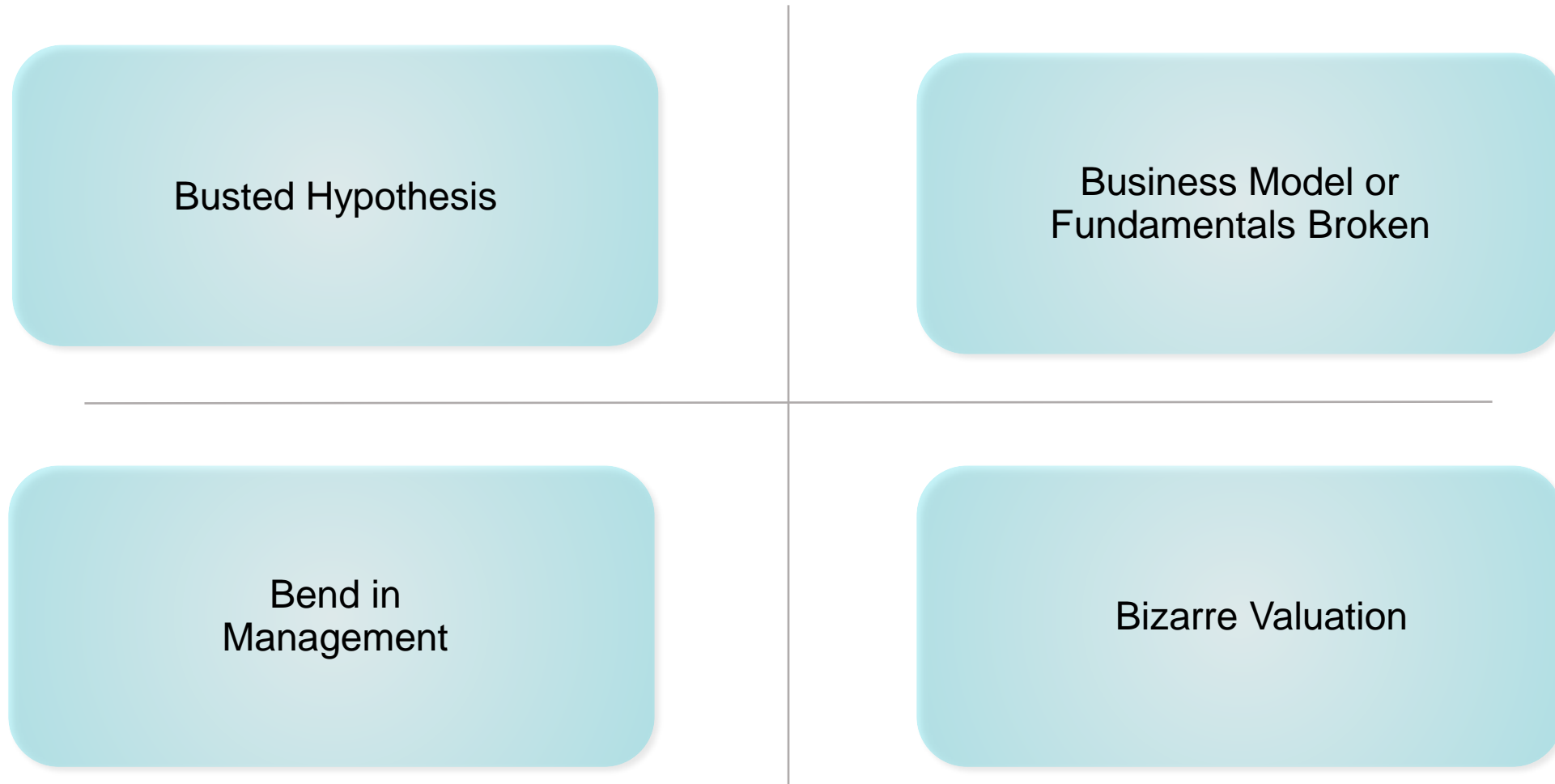
In 2022, the Govt called off process for strategic divestment of BPCL

Populist needs interferes with rational selling decisions – mostly sells under pressure

Only One Reason to Buy, Many to Sell

The truth is if you know what you own you will know time to sell

Mainstream Media on Selling – The Tale of Four Bs



“When the facts change, I change my mind. What do you do, sir?” **John Maynard Keynes**

Reason to Sell are Inversion of Reasons to Buy

Features/Parameters	Buying	Sizing	Holding	Trimming	Selling	Short-selling
Business related	High growth	High conviction	Conditions intact or improving	Start of theme playing out	Growth faltering	De-growth
Management related, CA, CG	Strong management	High conviction	Consistent actions vs claims	Unfavorable capital allocation	Minority unfriendly CA CG, DeWorsification	Minority unfriendly CA CG, DeWorsification
Valuation related	Favorable initial valuation	Favorable initial valuation	Valuation in line with performance	Extreme valuation, but business performing	Extreme valuation but growth faltering	Extreme valuation with de-growth
Earnings quality & accounting related	Strong	High conviction	Intact or improving	Signs of deterioration	Deterioration	Material misstatement
Psychological, behavioural related	Ownership bias	Ownership bias	Anchoring bias	Disposition effect	Disposition effect	Ownership bias

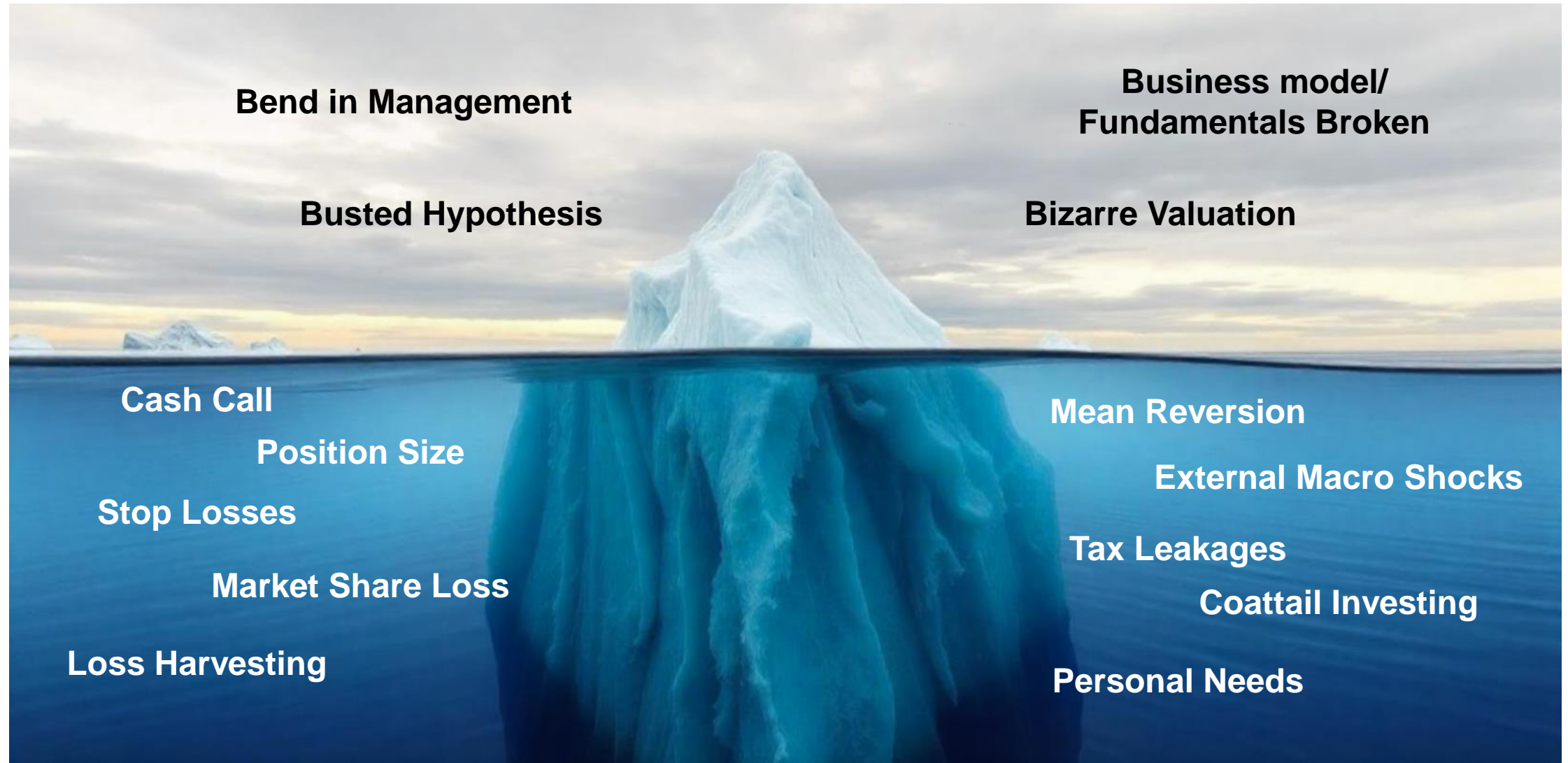
Every buy has its sell: When facts or your conviction turns

Learnings from Mistakes of Others



"A wise man learns by the mistakes of others, a fool by his own." – Latin Proverb

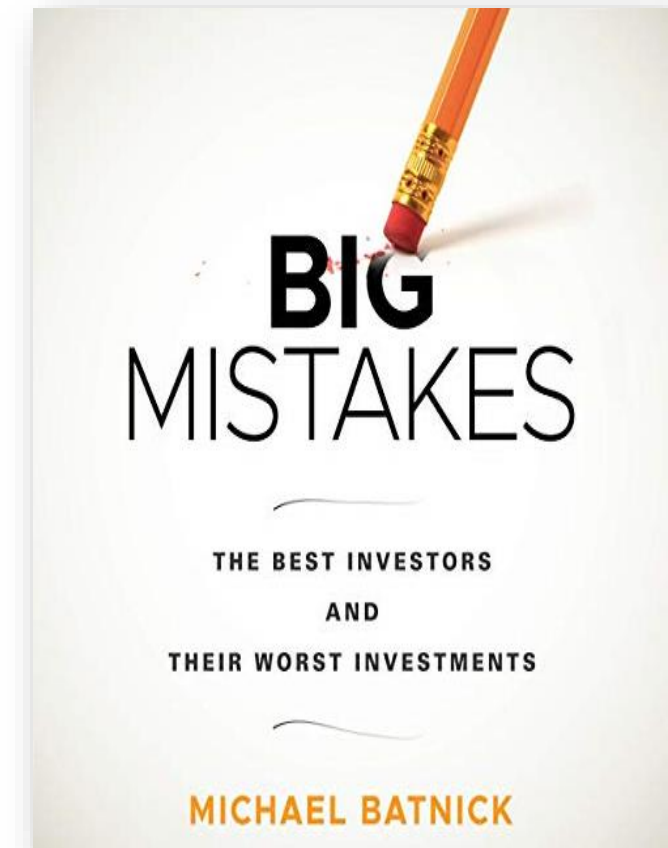
What I have Learnt from Mistakes of Others



Investing Success is like an Iceberg- What People See is Only the Surface

Prominent Errors of Selling

- Benjamin Graham (Value Traps)
- Jesse Livermore (Timing The Short & Over Leverage)
- **Mark Twain (Holding On Wrong Position Too Long)**
- John Meriwether (Trusting The Models & Risk Management)
- **Isaac Newton (Intelligence Does Not Give Success)**
- Jack Bogle (Can't Beat The Market)
- Michael Steinhardt (Investing Outside Your Zone)
- Jerry Tsai (Momentum Investing)
- Warren Buffett (Dexter Shoes – Overconfidence & Bad Deal Structuring)
- Bill Ackman (Herbalife – Ego)
- **Stanley Druckenmiller (Tech Stocks – FOMO)**
- **Sequoia (Concentration)**
- John Maynard Keynes (Macroeconomics vs. Market)
- John Paulson (Searching For Next Big Bet)
- Charlie Munger (Handling Big Loss)
- Chris Sacca (Dealing Regret)



“The market’s not a very accommodating machine; it won’t provide high returns just because you need them.” –
Peter Bernstein

Reasons to Sell



- Value Migration
- Weakened competitive positioning
- Change in Customer Preference
- Bargaining Power of Customer has gone up
- Intense competition
- Technological Obsolescence
- Regulatory Risk
- No New Growth Engine
- High Growth has Faltered
- Dependency on Supply Chain
- Poor Cashflows
- Weak balance Sheet
- Catalyst Event has occurred
- Life Cycle of the Company
- War
- Inflation
- Currency
- Natural disaster

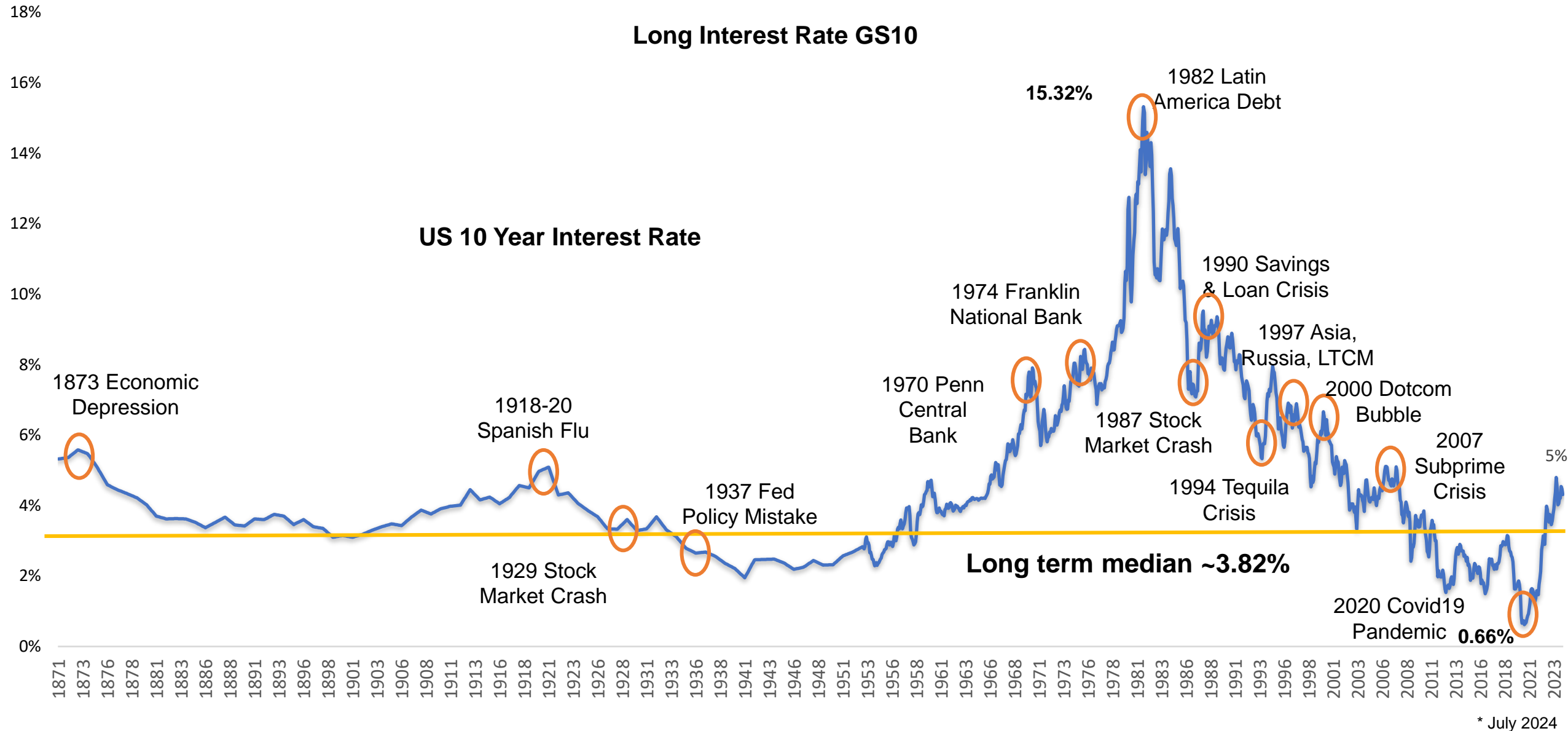
- Capital misallocation
- Corporate misgovernance + Aggressive Practices
- Unfriendly attitude towards minority shareholders
- Changes in management

- Improper Asset Valuation
- Off-Balance-Sheet Transactions
- Fraudulent Disclosures
- Fictitious Revenue
- Understating Liabilities
- Expense manipulation
- Inventory manipulation
- Siphoning of Funds
- Bribery & Corruption
- Ponzi Schemes

- Hypothesis busted
- Strategy not working
- Sell at one go vs avg Up/down
- Gross overvaluation of stock
- Gross valuation of entire markets
- Cash call option
- Launch of multiple thematic funds
- Alternative use of capital
- The importance of stop loss
- Cyclical business + peak margins + excessive leverage + overvaluation
- Poor initial position sizing
- Post runup position sizing-risk management
- Investor cohort & rerating

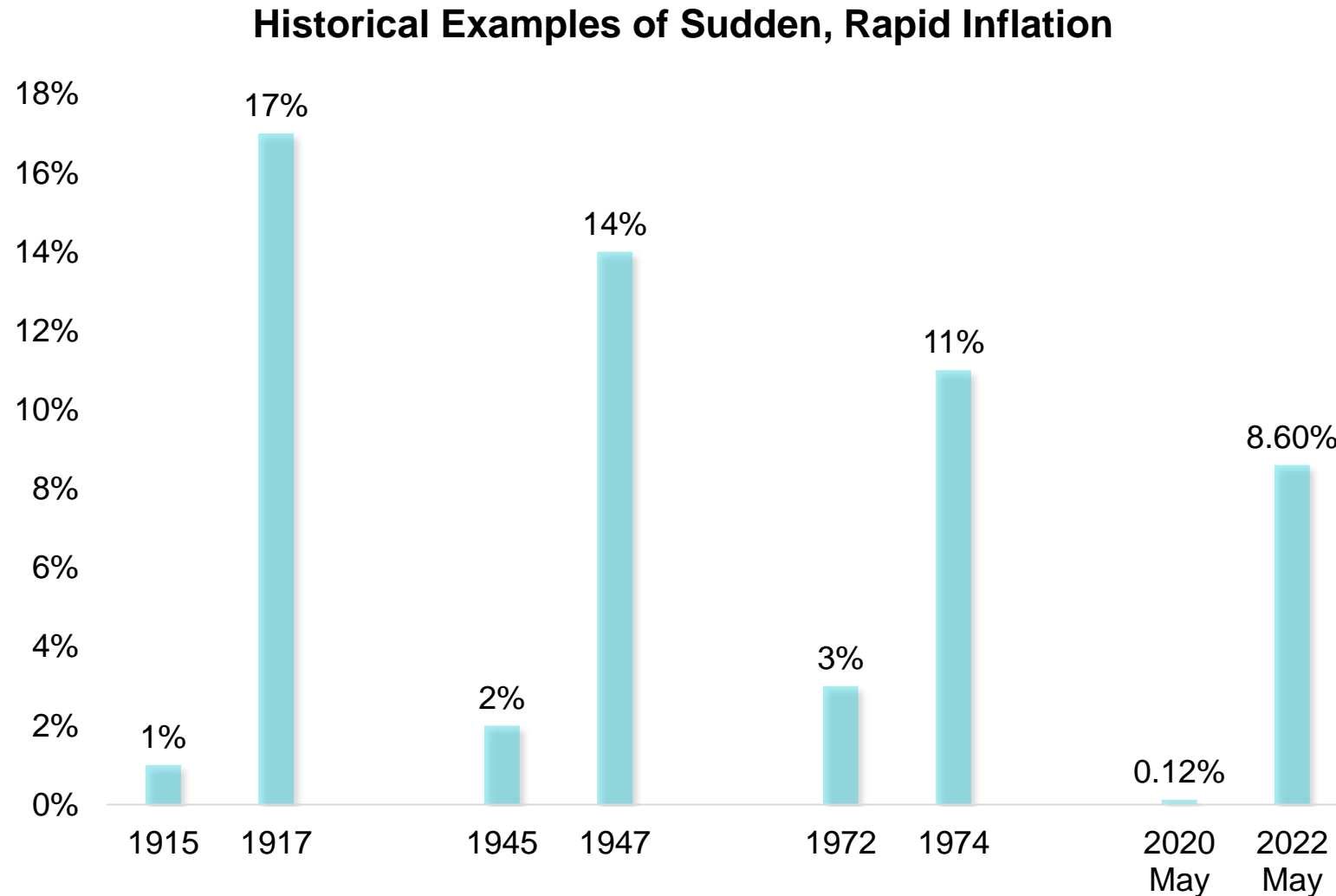
- Insider Selling
- Timing
- Stock owns you vs you owning the stock
- Repurchase after complete exit
- Coattail investing & conviction
- Personal Need
- Altered time horizon
- Break even- Recover the capital to exit
- Tax loss harvesting

Fed Tightening Usually Ends with a Financial “Event”



* July 2024

Expectations of Inflation can Rise Suddenly

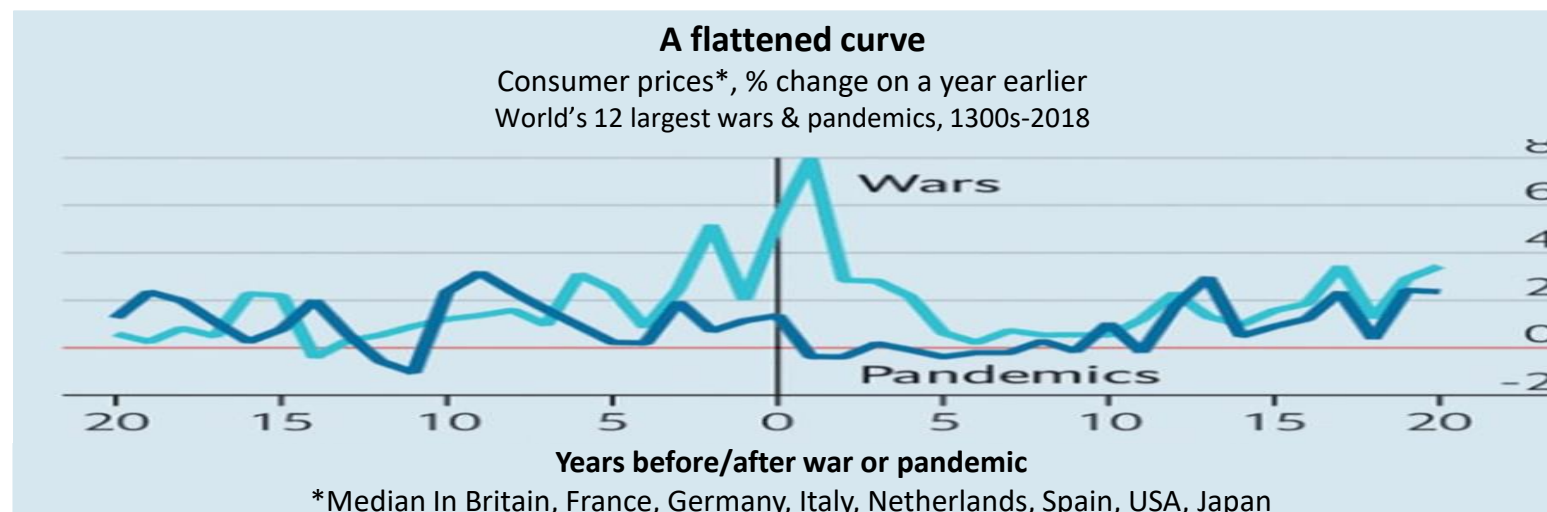


"Inflation destroys savings, corrodes investment, and distorts the entire economy." – **James Callaghan**

War Destroys Capital Assets, Pandemic makes them Idle (in Short-term)

No.	Event	Wars				Pandemics				
		Years	Duration	Global	Fatalities*	Event	Years	Duration	Global	Fatalities*
1	World War 2	1939-1945	6	Y	150-250m	Black Death	1331-1353	22	Y	2-3bn
2	World War 1	1914-1918	4	Y	80-120m	Spanish Flu	1918-1920	2	Y	150-200m
3	Thirty Years War	1618-1647	29	Y	70-130m	Plague in Kingdom of Naples	1656-1658	2		15-16m
4	Napoleonic Wars	1803-1814	11	Y	35-45m	Encephalitis Lethargica Pandemic	1915-1926	11	Y	6-7m
5	Seven Years War	1755-1762	7	Y	10-12m	Third cholera pandemic	1848-1854	6	Y	6-7m
6	First English Civil War	1642-1646	4		6-8m	Plague in Spain	1596-1602	6		8-9m
7	Vietnam War	1963-1973	10		5-8m	Asian Flu	1957-1958	1	Y	4.5-5.5m
8	Korean War	1950-1953	3		4-8m	Russian Flu	1889-1890	1	Y	4-5m
9	American Civil War	1861-1864	3		4-6m	Italian plague	1629-1631	2		3-4m
10	Spanish Civil War	1936-1938	2		2-3m	Hong Kong Flu	1968-1969	1	Y	2m
11	Franco-Spanish War	1648-1658	10		2-3m	Great Plague of Seville	1647-1652	5		2m
12	Franco-Dutch War	1672-1677	5		2-3m	Great Plague of London	1665-1666	1		1-1.5m
Avg. Duration			7.8			Avg. Duration			5.0	
Med. Duration			5.5			Med. Duration			2.0	

Notes: The 12 largest wars and pandemics measured by deaths, excluding regional wars and pandemics without economic data. *The fatalities data for wars and pandemics have both been re-scaled to today's global population.



Overvaluation of Entire Markets- Japan Asset Bubble 1986 – 1991

Japan GDP – \$3.65 Trillion in 1991



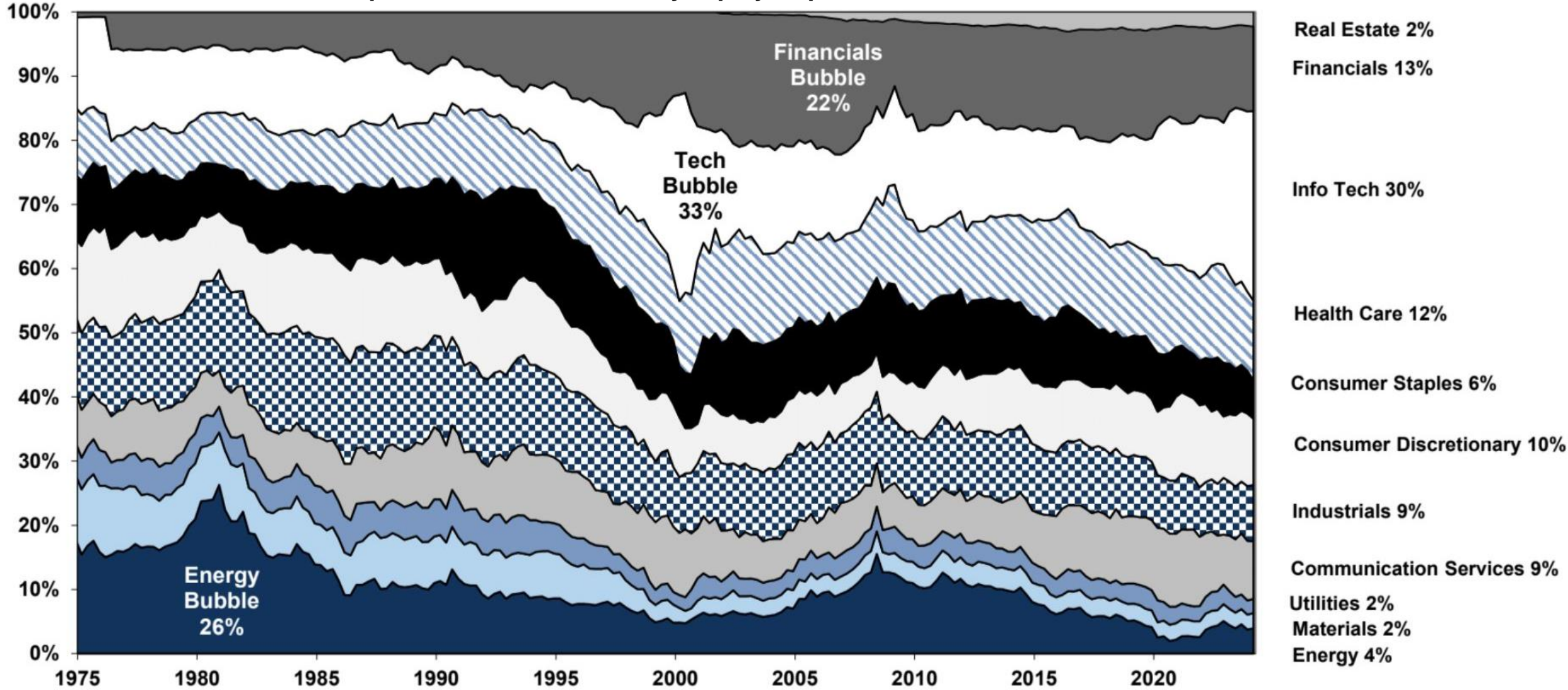
California State – (423,967 Sq. km) (\$790 Billion GDP in 1991)
California was the 8th Biggest economy in the world



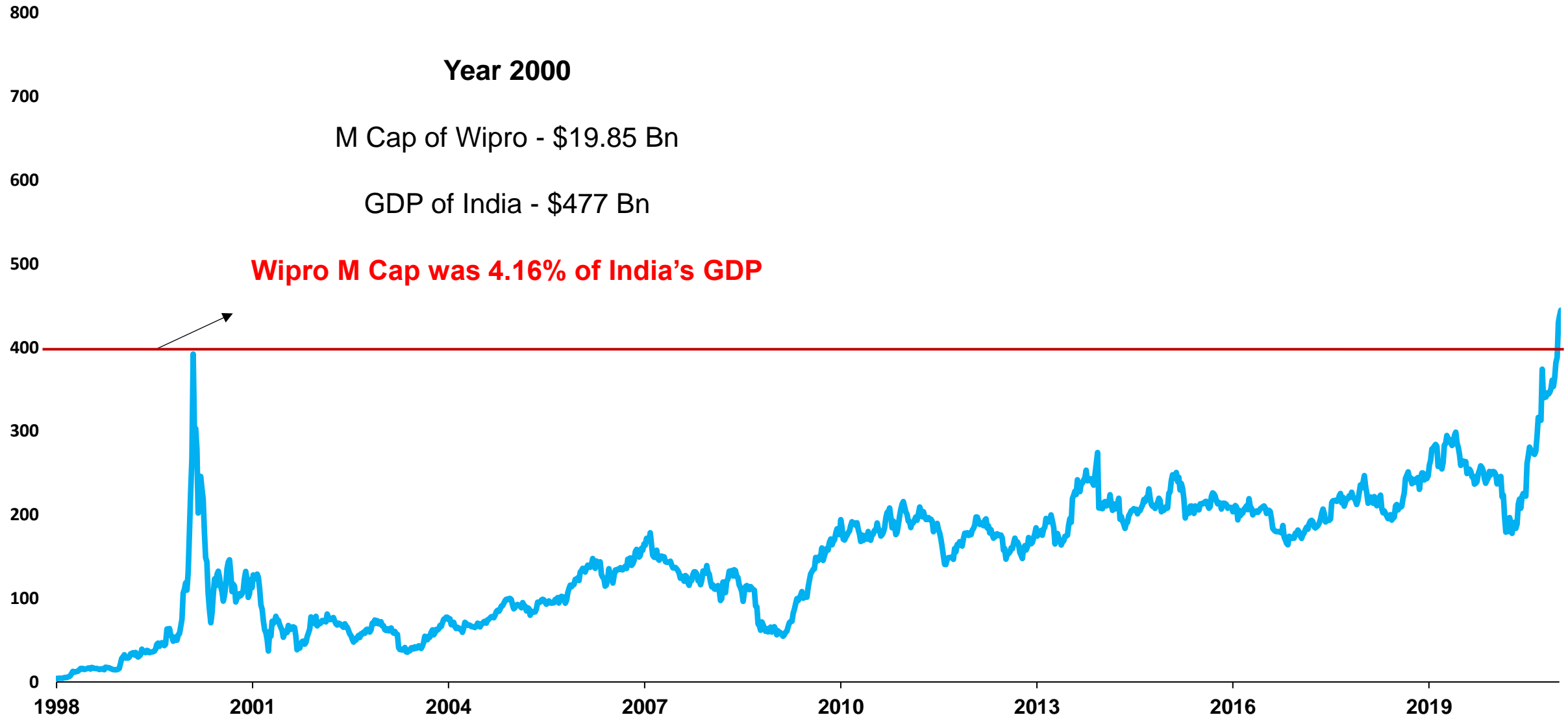
At one stage the land surrounding the Imperial Palace in Tokyo was estimated to be worth more than the whole of California...

Overvaluation of Entire Sector- Disproportionate Share of Market Cap

Sector Composition of the S&P 500 by Equity Capitalization, 1975-2024 as of March 31, 2024



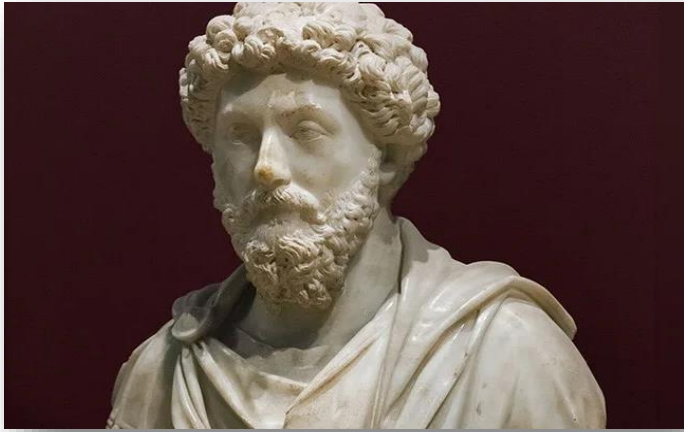
Overvaluation of Stock - Wipro



"The essence of investment management is the management of risks, not the management of returns." - **Benjamin Graham**

Investors Could Ride the Wave to Riches or Experience a Hard Landing

Ignore the bubble



Warren Buffett- Shied away from the dot com bubble

Many investors have shied away from Cryptos

Ride the Wave



George Soros- "When I see a bubble forming, I rush in to buy, adding fuel to the fire. That is not irrational."

Kyle Bass successfully predicted the U.S. subprime mortgage crisis by purchasing credit default swaps on subprime securities

Get trapped in the bubble



Cathie Wood (Ark)- Got trapped in the bubble of innovation stocks in 2021

Melvin Capital- closed operations after getting short squeezed in GameStop saga

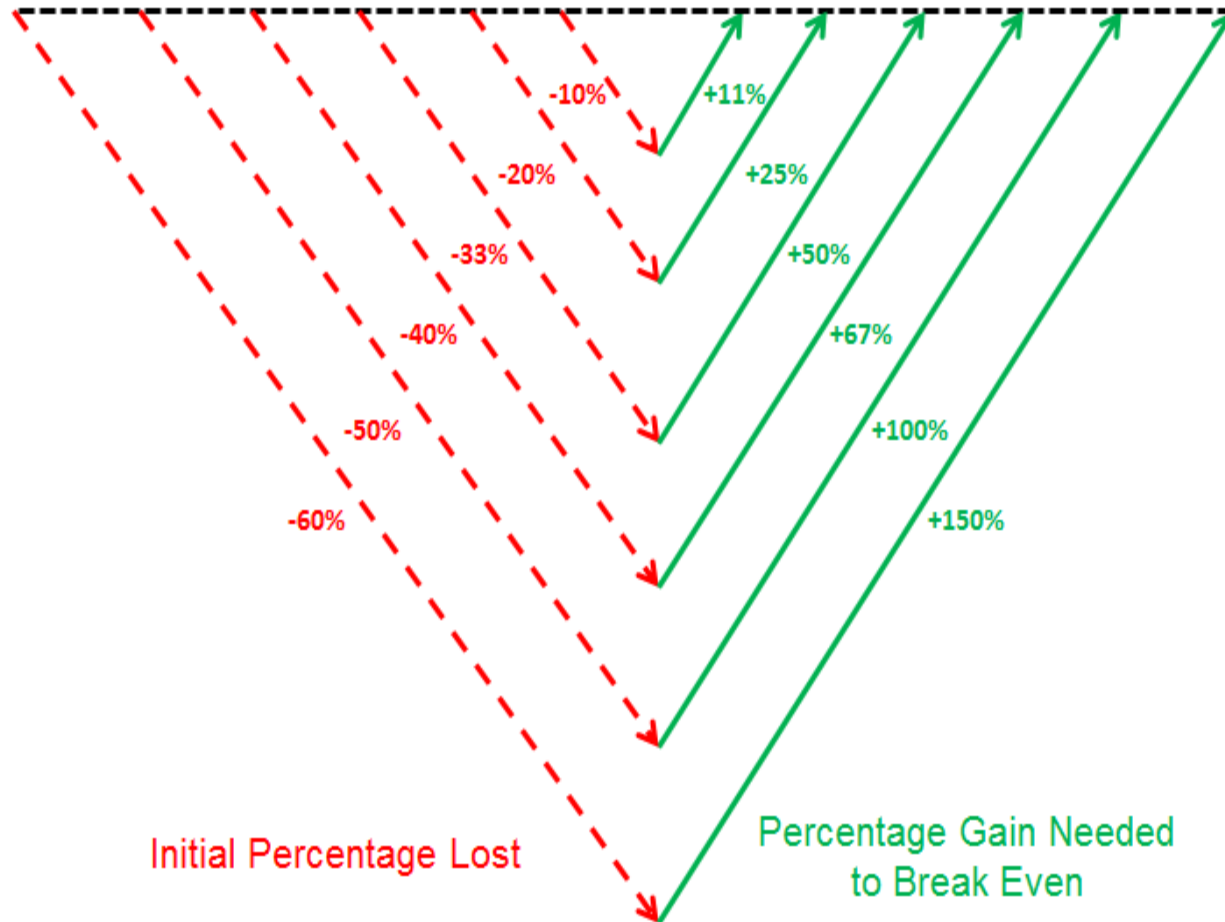
Investors behaving like Cinderella?



“They music was playing, and we were still dancing.”- **Chuck Prince, ex CEO Citi Bank**

Selling Consideration at Portfolio Level- Concentration

Law of Large Losses



It is difficult to recover from large losses at portfolio level

For concentrated portfolios- selling at 20% loss to cut losses makes sense for diversified it matters less

Position Size	Loss %	% Loss in Portfolio
20%	50%	10%
20%	20%	4%
10%	50%	5%
10%	20%	2%
2%	50%	1%
2%	20%	0.4%

Embedded Expectations- Reverse DCF

Cochin Shipyard Ltd. Near its high in July 2024

	FY24	FY22-24 Avg	Reverse DCF
Equity Value/Current Market Cap			73,392
Net Debt			(3,761)
Implied EV			69,631
Actual EV			69,631
Terminal Value			48,557
Explicit Period (FY25-34)			21,074
Assumptions for explicit growth period (10 years/FY25-34)			
Sales growth	62%	18%	25%
EBITDA Margin	23%	17%	17%
Tax (% of EBIT)	24%	41%	41%
Capex % of sales *	1%	4%	4%
Depreciation Rate	4%	5%	5%
WCap % of sales *	24%	-23%	-23%
Discount Rate			12%
Terminal Growth			5%
FCFF CAGR (FY25-34)			24%

As per Cochin Shipyard Market Cap, India will have 13 Aircraft Carriers, with US having 11 currently

Growing at 25% CAGR for 10 Years, CSL will have Sales of INR 35000 cr in FY34, for context 1 Aircraft Carrier costs around INR 5000 cr (ship portion)

“Trees Don't Grow to the Sky”-Hungarian Proverb

If Overpaid for a Mediocre Business, it Results in a Permanent Loss of Capital

Aerospace & Defense	M Cap	Sales	Export (%)	P/S	PAT	PAT Margin	P/E	ROCE
Global Companies (Median)	-	-	51%	1.8	-	7%	33	11%
RTX (Raytheon)	1,60,844	69,620	35%	2.2	3,380	5%	73	3%
Airbus	1,17,164	72,252	61%	1.6	3,989	6%	34	14%
Lockheed Martin Corp	1,37,003	67,571	26%	1.9	6,920	10%	21	27%
The Boeing Co	1,00,571	77,794	42%	1.4	-2,242	-3%	-29	-6%
Safran	90,101	26,111	81%	3.2	3,886	15%	50	16%
General Dynamics Corp	80,751	42,272	14%	1.8	3,315	8%	23	10%
Northrop Grumman Corp	76,586	39,290	12%	1.9	2,056	5%	34	8%
Dassault Rafale	50,516	6,570	66%	7.7	1,159	18%	44	11%
BAE Systems	51,764	29,420	74%	1.6	2,473	8%	22	14%
Thales	33,430	20,345	73%	1.6	1,107	5%	32	10%
Indian Companies (Median)	-	-	1%	11	-	19%	72	25%
Hindustan Aeronautics Ltd.	38,719	3,637	1%	11	909	25%	39	35%
Bharat Electronics Ltd.	26,017	2,426	38%	10	472	19%	52	32%
Mazagaon Dock Shipbuilders	11,468	1,133	0%	10	232	19%	42	39%
Solar Industries India Ltd.	11,897	727	40%	16	105	14%	108	28%
Cochin Shipyard Ltd.	6,043	459	0%	12	94	20%	59	22%
Bharat Dynamics Ltd.	5,793	281	0%	22	73	26%	84	23%
Garden Reach Shipbuilders	2,676	430	0%	6	43	10%	61	28%
Data Patterns (India) Ltd.	1,848	62	0%	29	22	35%	82	19%
Zen Technologies Ltd.	1,784	53	18%	27	16	29%	88	40%
Astra Microwave Products Ltd.	993	109	25%	9	13	12%	62	15%
MTAR Technologies Ltd.	661.86	70	71%	10	7	10%	138	11%
Paras Defence And Space	585.72	30	0%	17	4	12%	120	9%

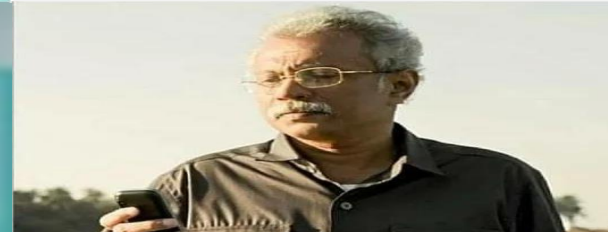
Total Market Cap of Shipbuilders In India Is Now 75% of Korean Shipbuilding Sector With Sales 5% of Korea's

“Invert, Always Invert”- Carl Jacobi

Hospitality	M. Cap.	Sales	P/S	PAT	PAT Margin	P/E	ROCE	Properties	Rooms
Global Companies Median	-	-	2.9	-	17%	18	11%	-	-
Marriott International	64,598	6,300	10	3083	49%	23	32%	8,785	15,97,380
Hilton Worldwide	52,797	4,408	11	1151	26%	45	28%	7,780	12,00,000
Oriental land	44,941	4,087	10	794	19%	56	14%	-	-
Las Vegas Sands	29,353	10,372	2.6	1431	14%	19	13%	-	-
Host Hotel & Resorts	11,892	5,317	2.2	752	14%	16	6.6%	77	41,972
Galaxy Entertainment	16,654	4,572	3.1	880	19%	16	8.6%	-	-
Intercontinental Hotels Group	15,688	3,728	4.1	750	20%	26	59%	-	9,46,203
Hyatt Hotels	14,807	6,667	2.3	220	3.3%	16	4.4%	1,335	3,22,141
MGM Resorts	11,121	16,119	0.7	1315	8.2%	14	4.1%	18	44,654
Accor	10,062	5,582	1.7	718	13%	17	7.9%	5,584	8,21,518
Indian Companies (Median)	-	-	9.0	-	12%	71	9.4%	-	-
Indian Hotels	11,181	830	13	160	19%	73	14%	182	1,83,000
EIH	2,781	301	9.0	81	27%	37	20%	30	4,269
Chalet Hotels	2,281	170	13	33	20%	73	9.4%	10	3,052
Lemon Tree Hotels	1,224	129	9.2	22	17%	71	11%	88	8,382
Juniper Hotels	1,053	98	10	2.9	2.9%	157	5.6%	7	1,895
Mahindra Holidays	1,022	325	3.1	14	4.3%	73	5.4%	151	5,327
Samhi Hotels	558	115	4.6	-28	-25%	-15	4.8%	31	4,801
Oriental Hotels	335	48	7.2	6	12%	67	9.9%	7	825
Hotel Leela Ventures	164	24	6.9	3	12%	63	3.4%	-	-



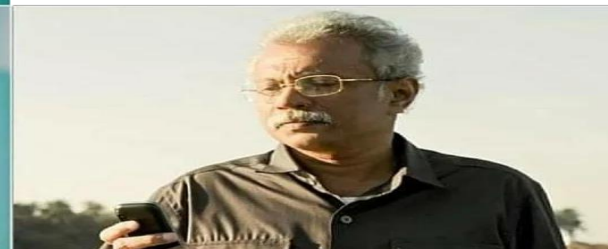
Doing research and technical analysis and fundamental analysis to find the best possible stock for investing



Asking Chellam sir in which stock to invest



Stock does well and getting confident on analytical skills



Tells Chellam Sir what to buy

Probably a time to sell



I Never Owned a Stock I was Not Willing to Sell at a Price

FMCG	M. Cap	Sales	P/S	PAT	PAT Margin	P/E	ROCE
Global Companies Median	-	-	2.8	-	11%	29	17%
Procter & Gamble	4,13,314	84,039	4.9	14879	18%	29	23%
L'Oréal	2,31,954	45,465	4.9	6834	15%	32	21%
Unilever	1,62,358	65,803	2.5	7883	12%	23	19%
Colgate-Palmolive	88,875	19,457	4.5	2455	13%	32	38%
Kimberly-Clark	49,965	20,431	2.5	1764	8.6%	22	29%
Haleon	46,192	14,408	3.1	1416	9.8%	69	7.9%
Kenvue	43,110	15,444	2.8	1664	11%	39	13%
General Mills	40,956	19,857	2.1	2519	13%	17	15%
Reckitt Benckiser	40,948	18,621	2.2	2112	11%	21	17%
Henkel	36,018	23,751	1.5	1479	6.2%	18	11%
Indian Companies (Median)	-	-	11	-	15%	65	24%
HUL	79,491	7,428	11	1234	17%	65	23%
ITC	75,403	8,507	8.8	2490	29%	31	32%
Nestle*	29,105	2,913	12	472	16%	75	114%
Varun Beverages	23,557	1,928	11	253	13%	82	24%
Godrej Consumer	17,971	1,692	11	-67	-4.0%	-352	18%
Britannia Industries	16,999	1,986	8.4	256	13%	65	48%
TATA Consumer	14,079	1,825	7.5	146	8.0%	100	8.4%
Dabur	13,719	1,489	9.1	217	15%	61	17%
Colgate Palmolive (India)	11,903	682	17	159	23%	71	89%

Source: TIKR, Company Financials, M.Cap, P/S, and P/E as of 05/09/24, Rest data for FY24, Data in USD Mil.

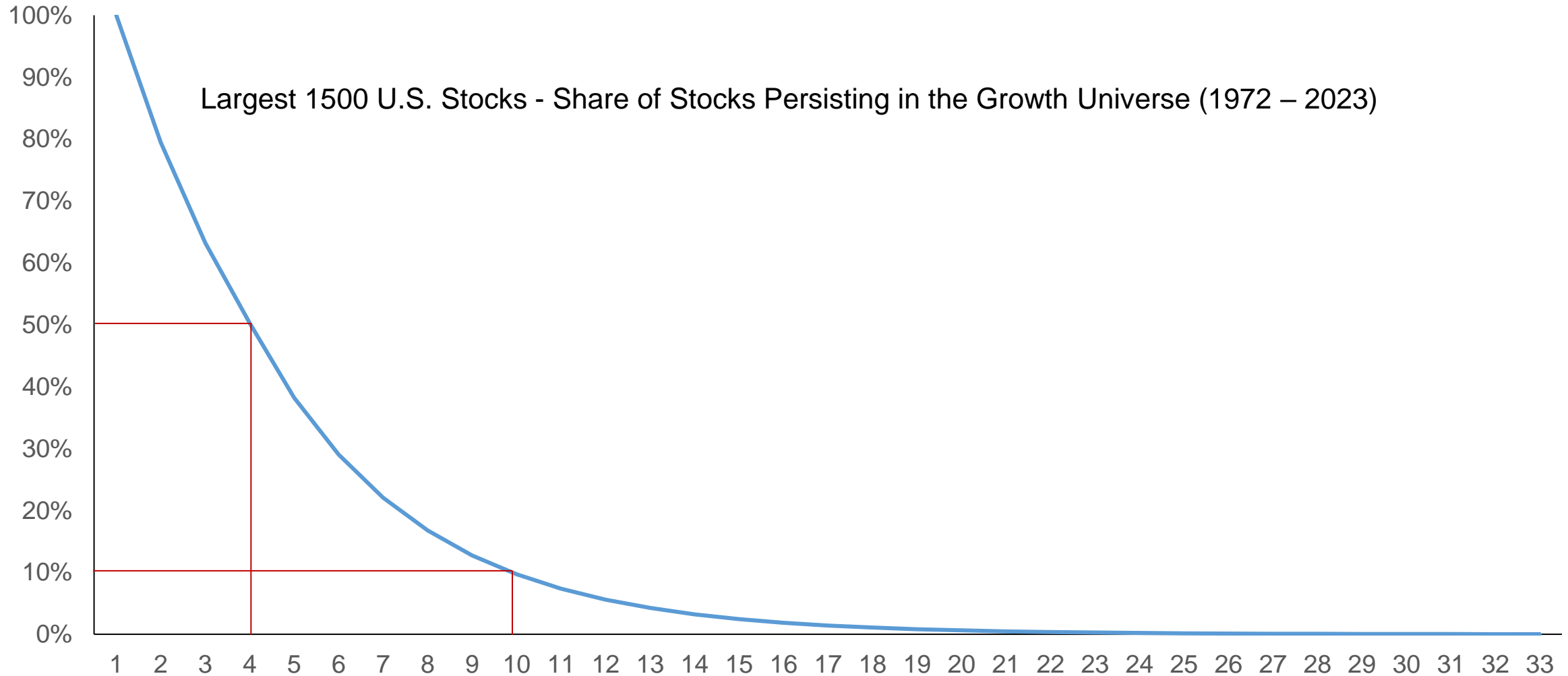
*For Nestle, 15 months FY ended 31st March 2024

A Rising Tide Lifts all Boats

Electronics Manufacturer	M Cap	Sales	P/S	PAT	PAT Margin	P/E	ROCE
Global Companies Median	-	-	0.4	-	3.1%	17	11%
Foxconn	52,938	66,912	0.7	2961	4.4%	17	11%
Flex	12,178	26,415	0.5	1245	4.7%	21	11%
Jabil	11,753	34,702	0.4	818	2.4%	9	24%
Winstron	8,406	28,245	0.3	595	2.1%	17	10%
BYD Electronics	7,864	18,309	0.4	569	3.1%	14	7.8%
Pegatron	8,175	40,940	0.2	567	1.4%	14	4.6%
Celestica	5,522	7,961	0.6	245	3.1%	15	14%
Sanmina	3,660	8,935	0.5	328	3.7%	17	17%
Kinpo Electronics	991	5,204	0.2	27	0.5%	25	3.6%
Indian Companies(Median)	-	-	3.6	-	3.2%	95	8.1%
Dixon Technologies	9,105	2,123	3.6	45	2.1%	171	24%
Kaynes Technology	3,721	217	16	22	10%	145	8.1%
Amber Enterprises	1,813	808	2.1	17	2.1%	95	8.1%
Syrma SGS	925	379	2.1	15	3.9%	80	6.3%
Cyient DLM	683	143	4.7	7	5.1%	86	8.1%
Avalon Technologies	406	104	4.1	3	3.2%	185	5.2%
Wonder Electricals	218	68	2.7	1	1.8%	163	12%
Mirc Electronic	79	116	0.7	-7	-6.4%	-12	-23%

Reality Check from the Past

After four years, only half of the stocks remain in the growth universe, & only ten percent last ten years

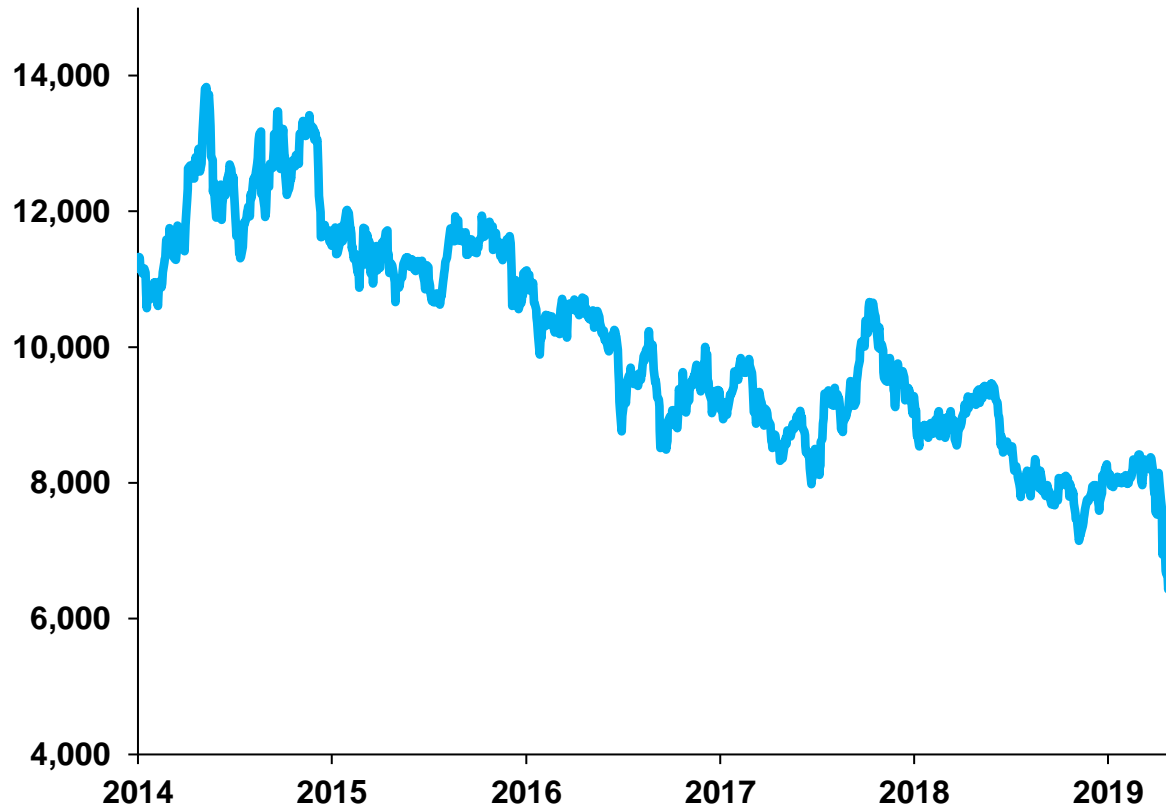


Marry your stocks but have prenuptial agreement in place

Launch of Multiple Thematic Funds

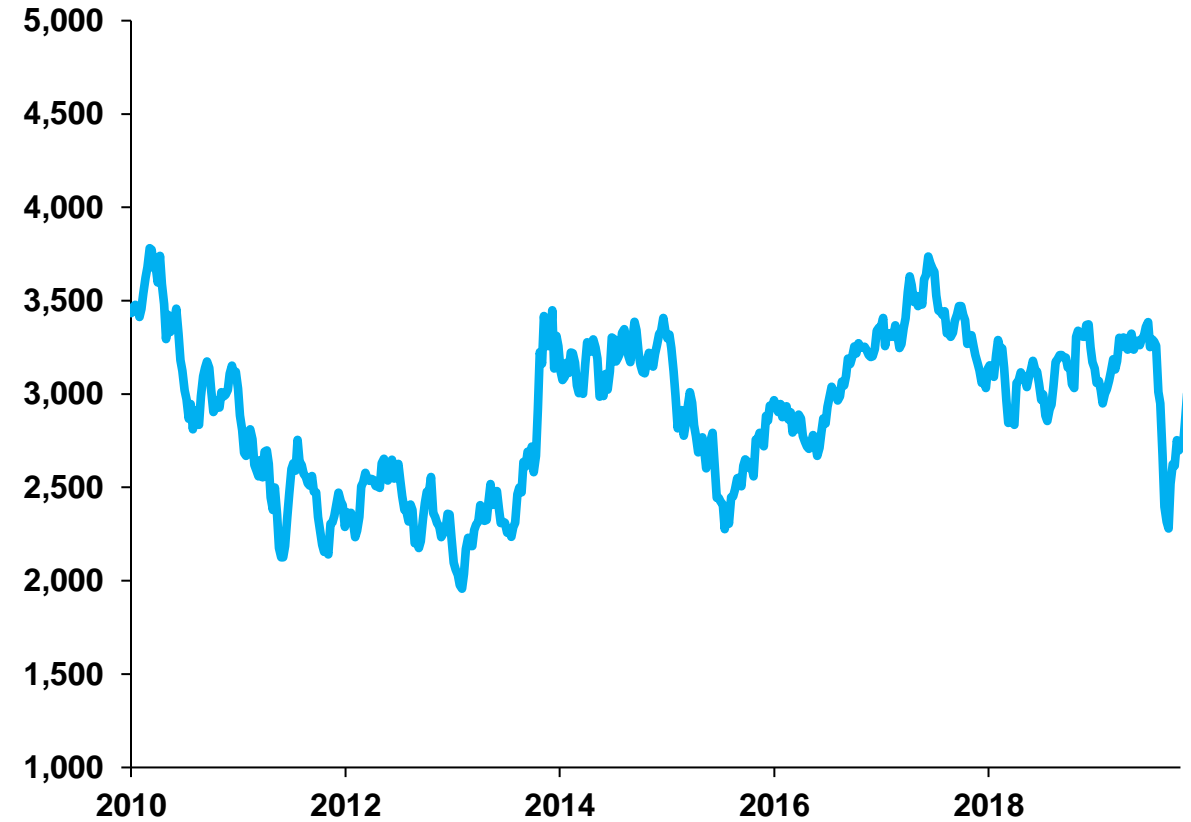
From 2013-15 multiple Pharma funds were launched

Nifty Pharma



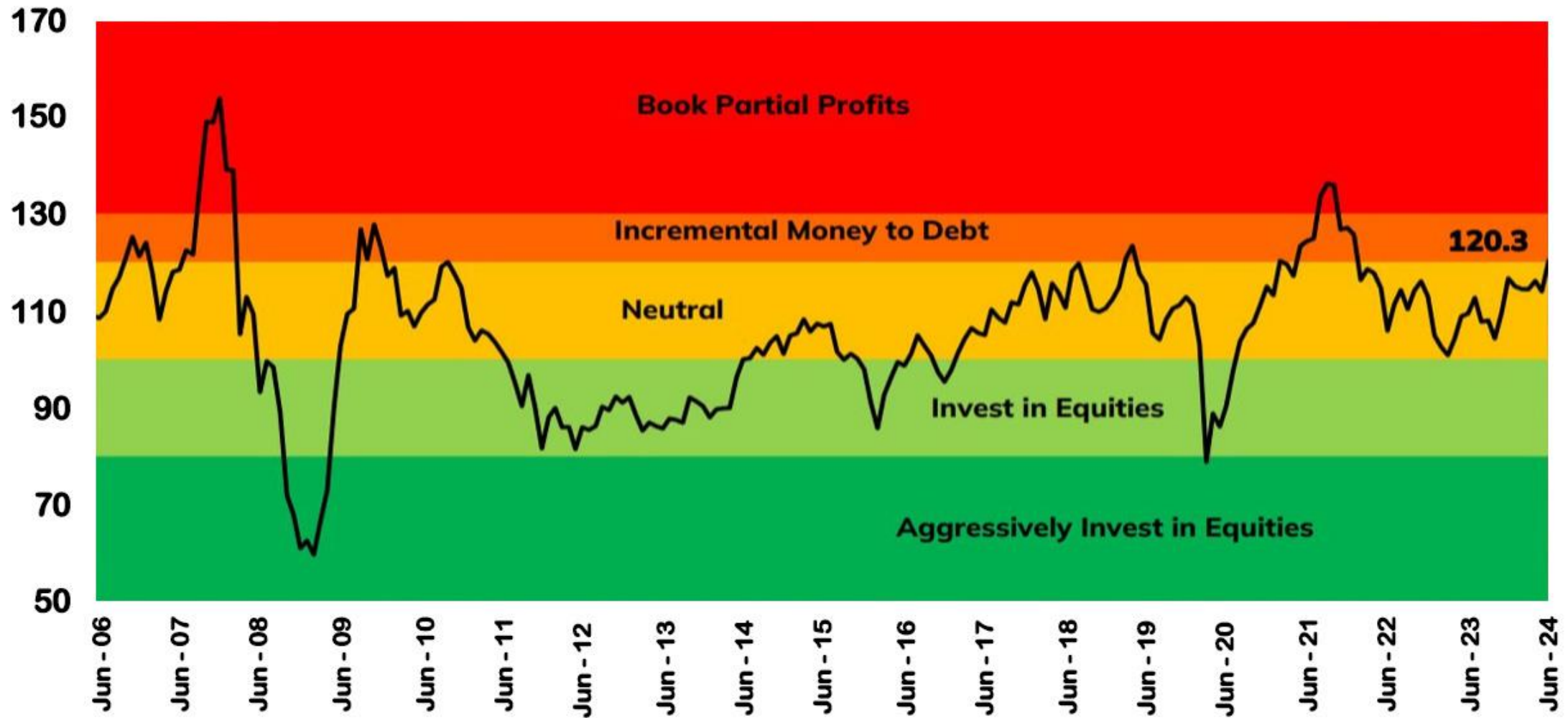
From 2007-11 multiple Infra funds were launched

Nifty Infra



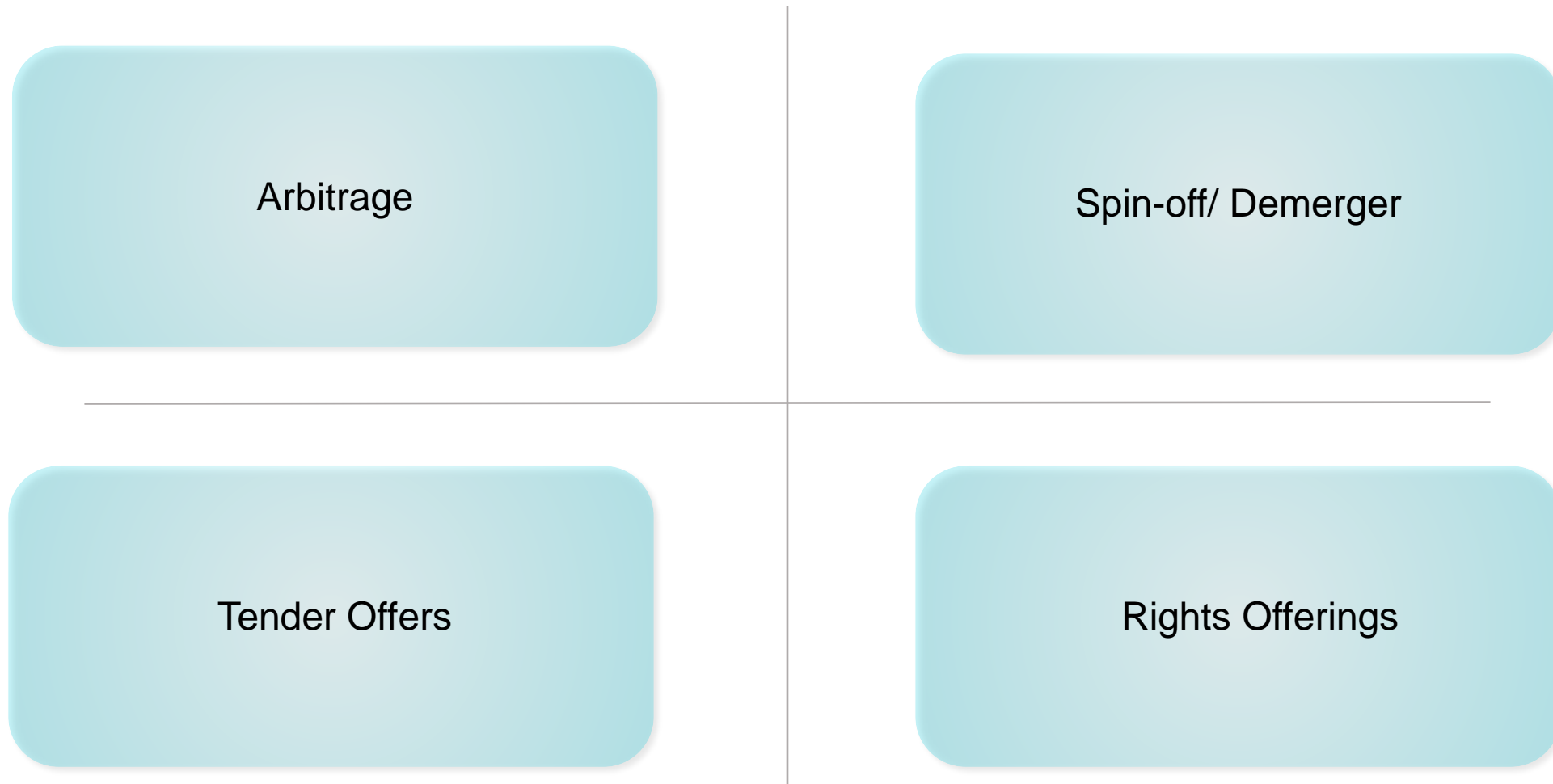
What is fashionable need not be investable

Cash Call- You Can Play Offence only if your Defense Permits you to



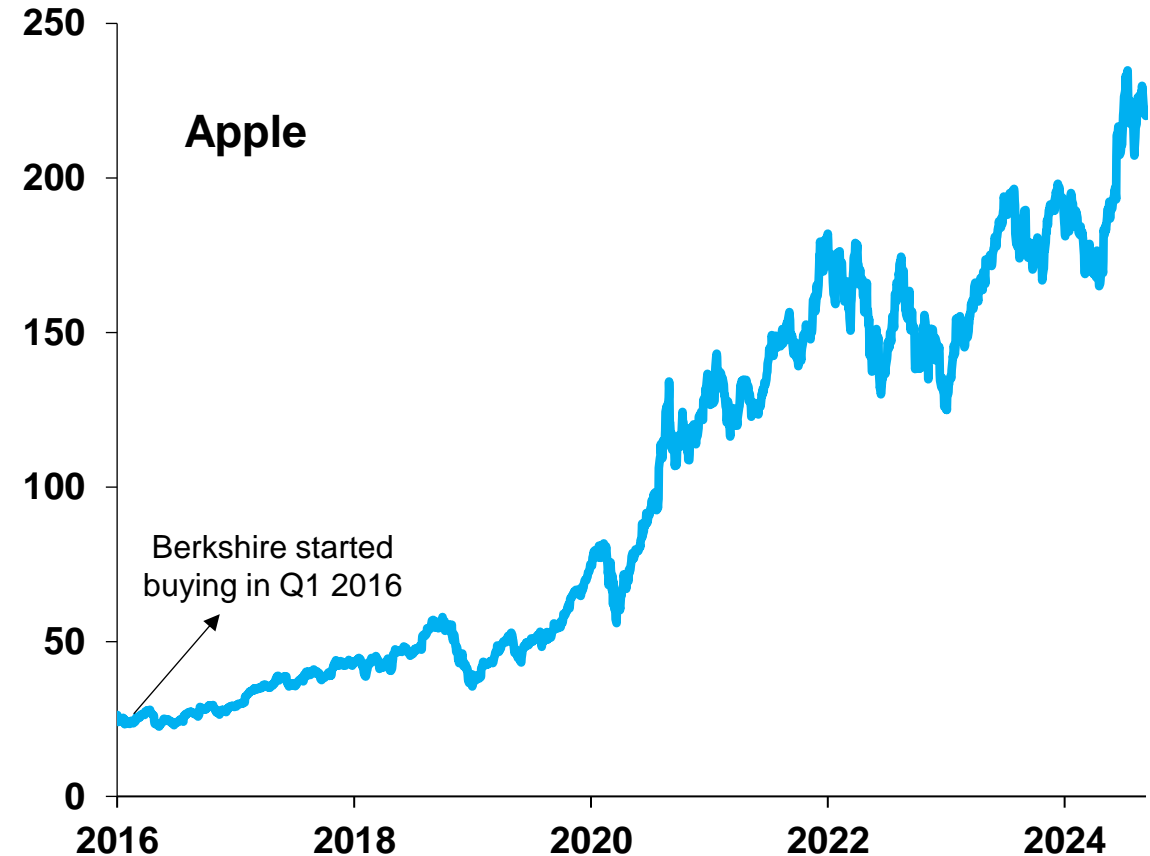
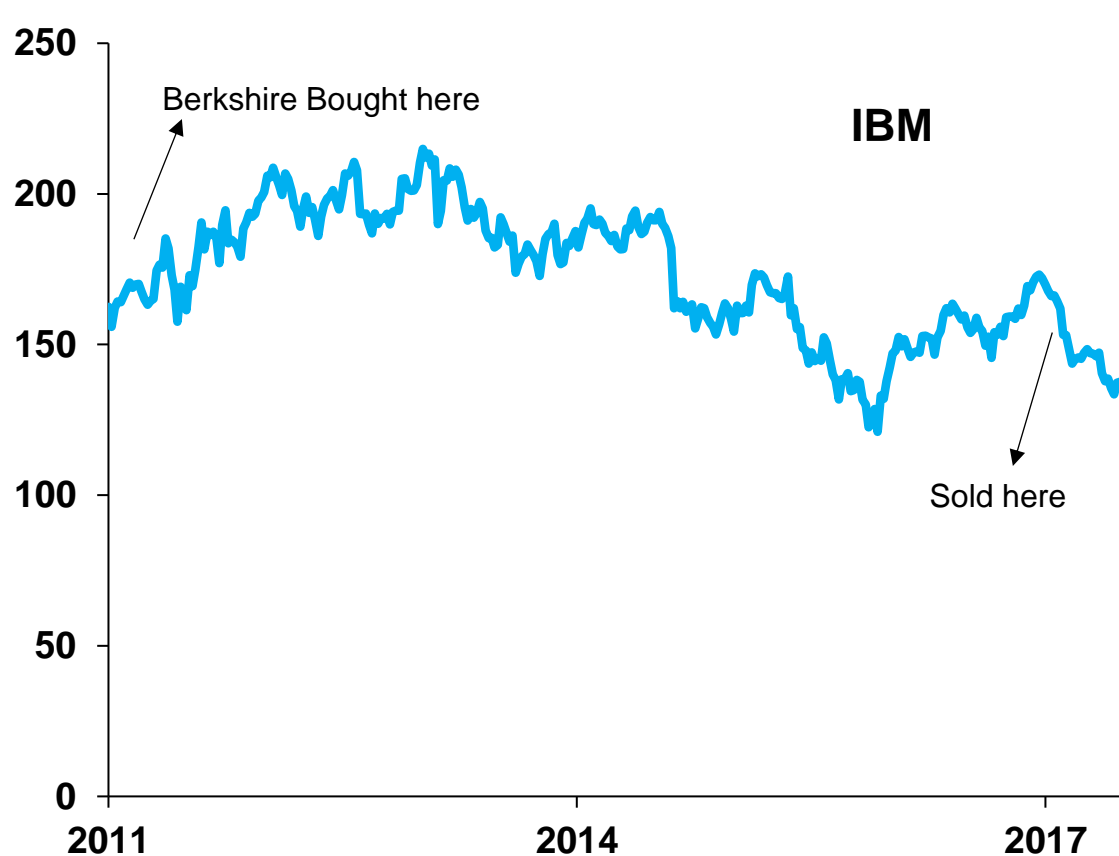
“The young man knows the rules, the old man knows the exceptions.” — **Oliver Wendell Holmes, Sr.**

Special Situations- Catalyst Event has Occurred



Sell decisions in special situation funds focus on booking profits and pursuing better opportunities

Switching- Better Risk Reward Alternative



Switching investments is often harder than simply selling because it involves two critical decisions: selling A and buying B. In doing so, you're essentially saying you understand both sides—that B provides a superior risk/reward profile. As more variables come into play, the complexity of this choice only increases.

The Importance of Stop Loss



Investors should consider - Stop Loss, Time Loss & Tax Loss

Stock owns you, your sleep & your Destiny



Bill Ackman

- Bill Ackman bought a massive stake of 8.5% stake in Valeant pharmaceuticals
- This concentrated position led to permanent loss of capital to the tune of ~\$4 bn

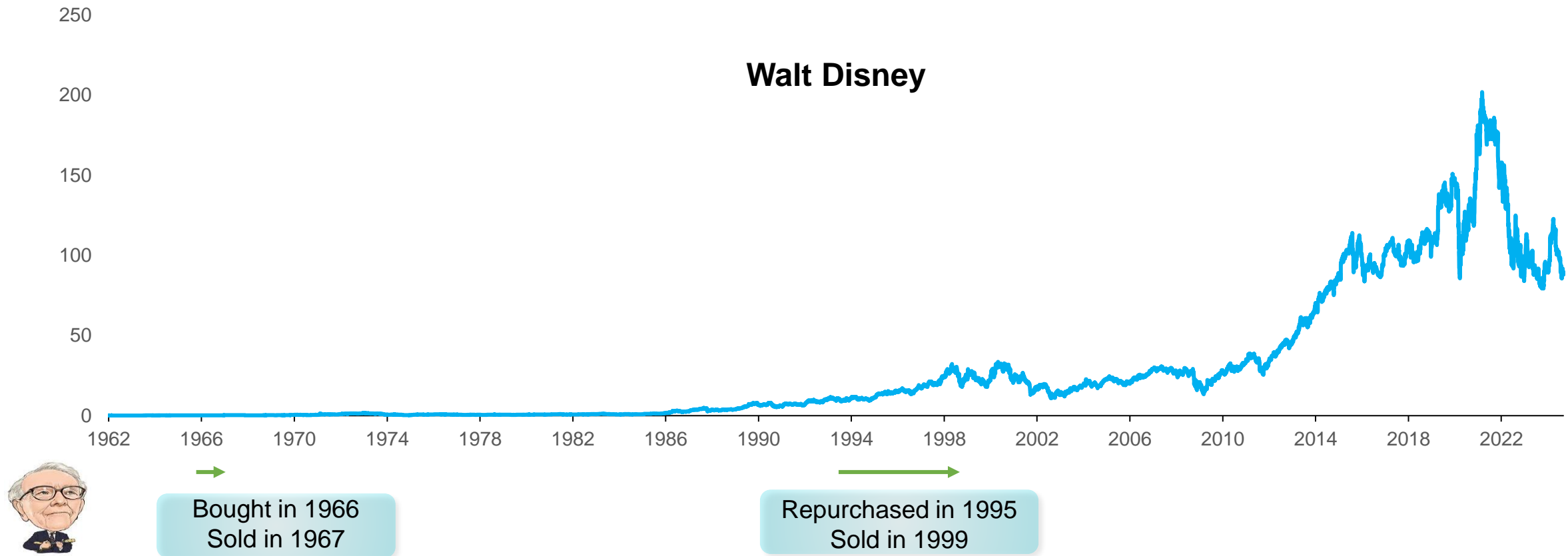


Nick Sleep

- Nick sleep invested 20% of portfolio in amazon, which made his clients uncomfortable because of too much concentration
- He ended up losing some clients
- From 20% it became 33%, & he ended up losing even more clients.

Concentration is a double-edged sword- The more concentrated fund is better to cut losses & avoid big drawdown

Post Selling- Repurchase after Complete Exit



“When you sell don't be an amateur. Don't go bashing the stock/management the day after you sell. You were just wrong. 9 out of 10 times management is trying their best. Don't be naive enough to think the only time the stock/business might work is the timeframe you owned it.”- **Ian Cassel**

Coattail investing & conviction

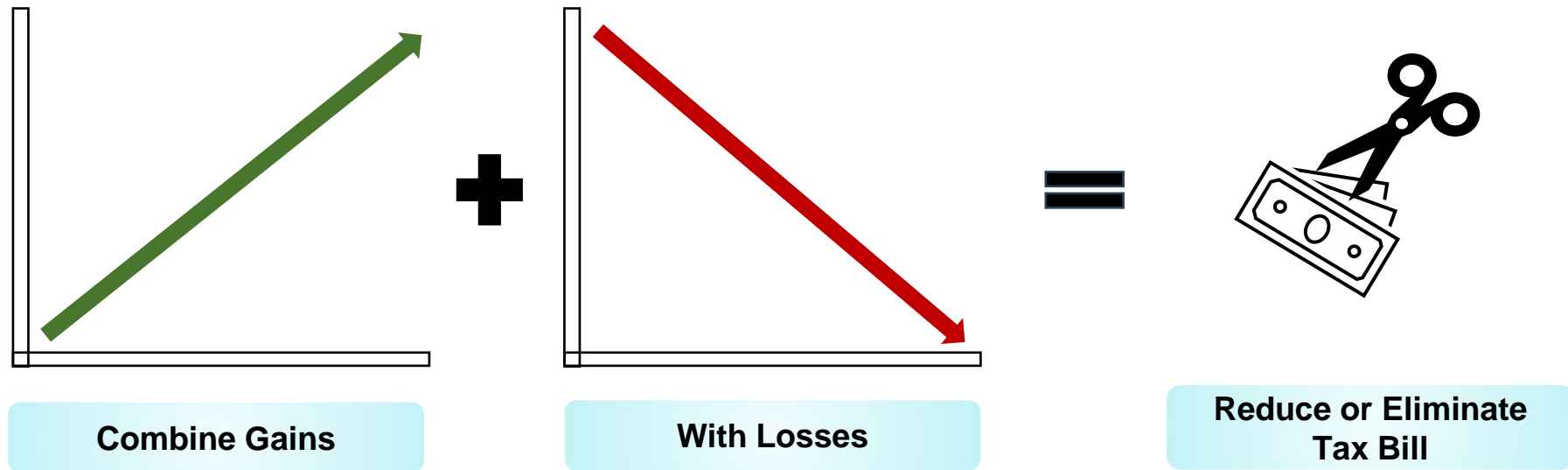


“You can borrow someone else's stock ideas but you can't borrow their conviction. True conviction can only be obtained by trusting your own research over that of others. Do the work so you know when to sell. Do the work so you can hold. Do the work so you can stand alone” - **Ian Cassel**

“If you can't decide, the answer is no” - **Naval Ravikant**

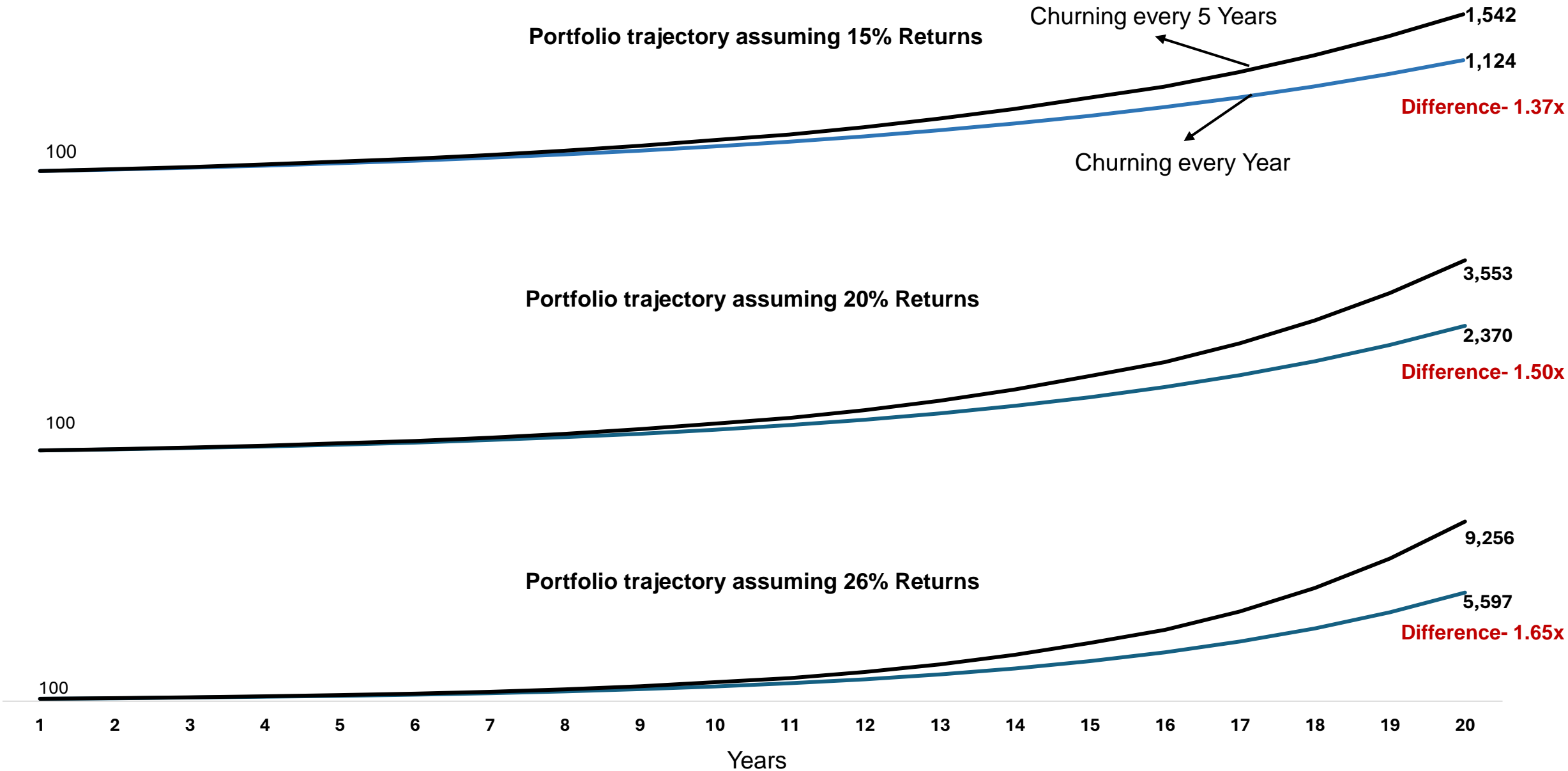
Tax Loss Harvesting- It's not what you make, it's what you keep.

Selling losing Investments to reduce your Tax Bill



A penny saved is a penny earned, especially when it's saved from the taxman

Tax Leakages in Selling- Impact of Churning on Portfolio Returns





**Selling is
Emotionally Hard
but Important. Buy
& hold does not
mean buy & forget**



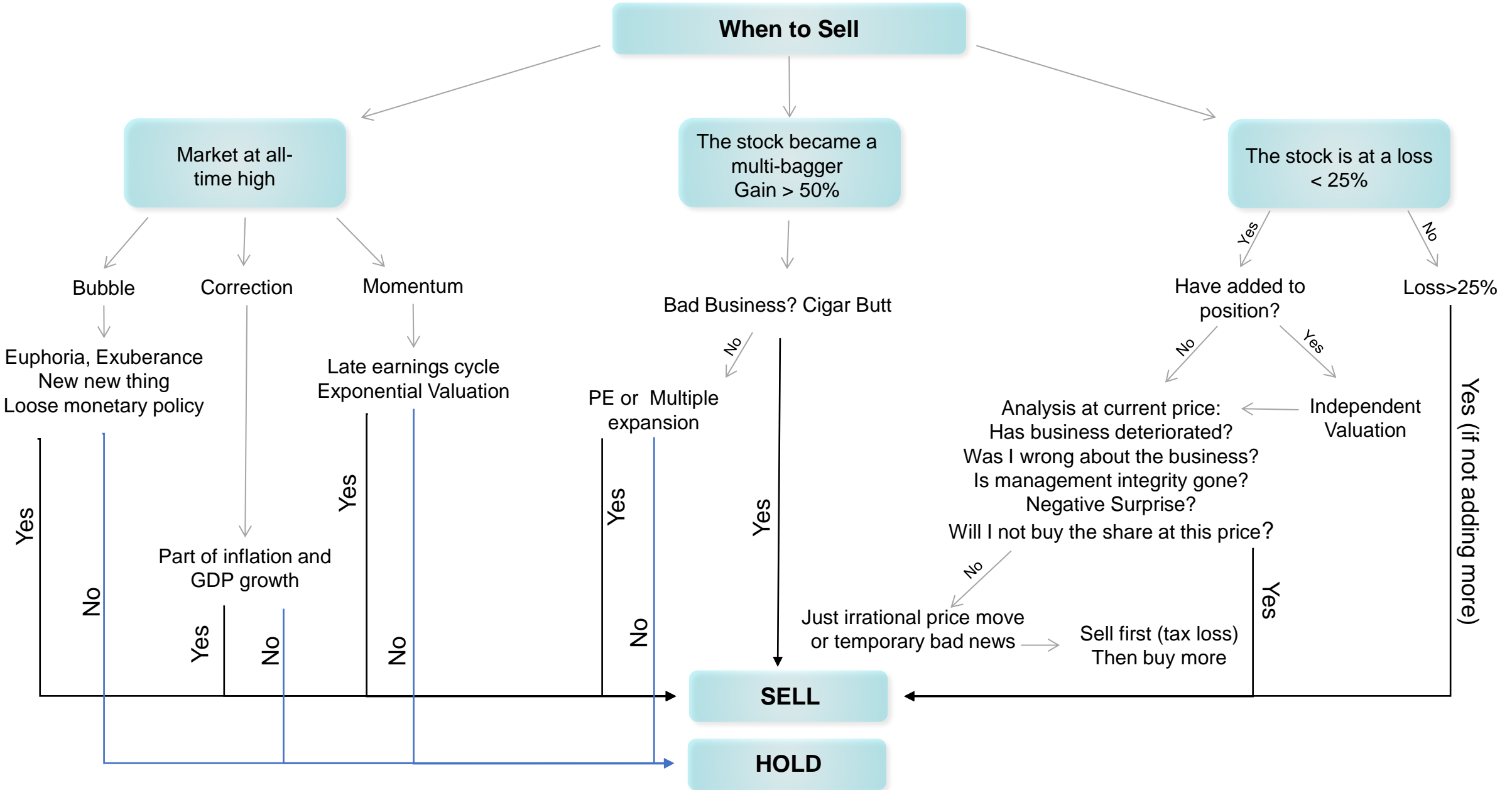
**No one asked Chellam Sir
when to sell**

My Key Learnings from 3 Decades of Investing



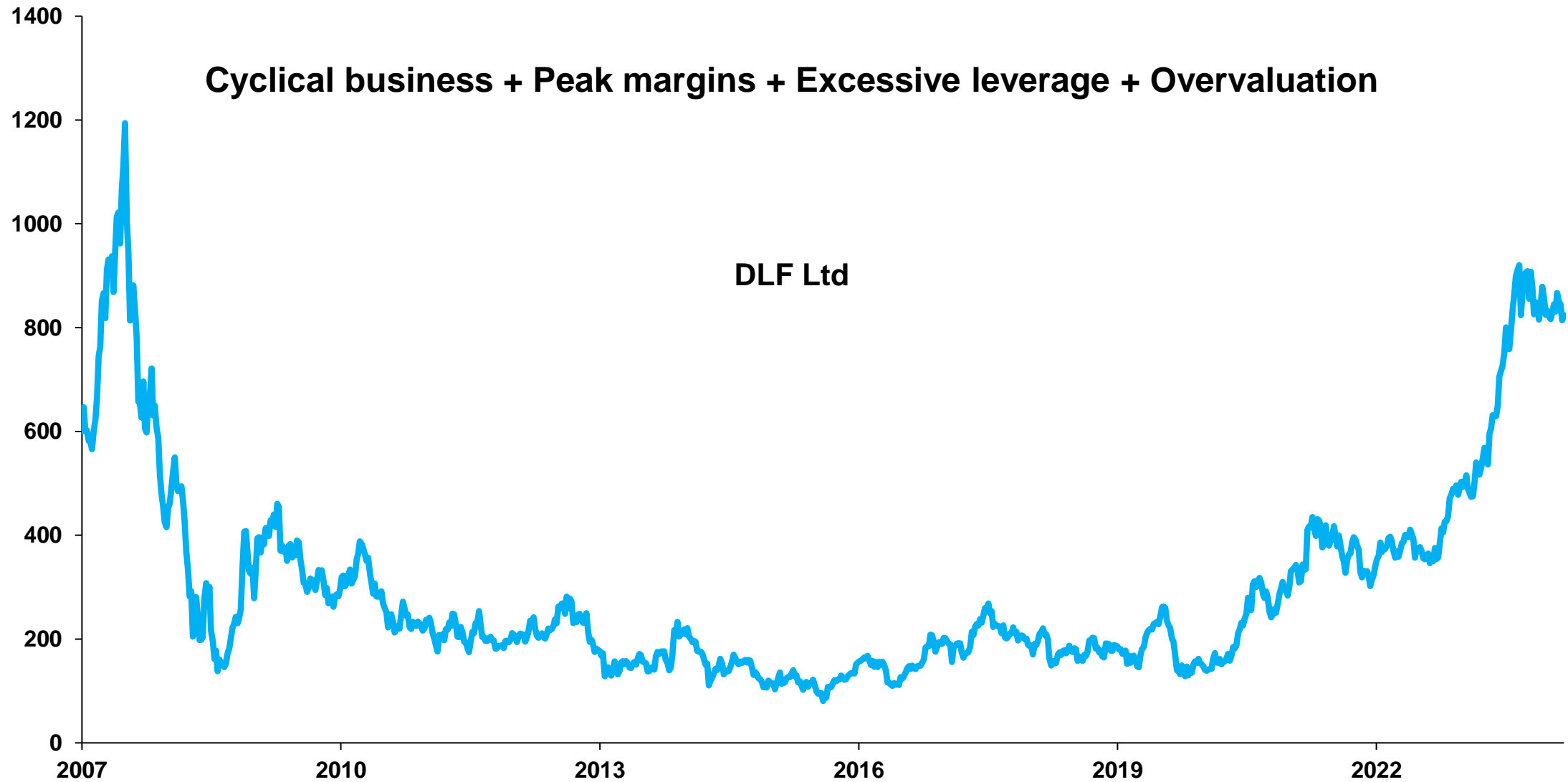
**“Selling your winners & holding your losers is like cutting the flowers & watering the weeds.”-
Peter Lynch**

Investing is Not a Still Picture, but an Unfolding Movie



Source: Fundsindia

Role of Cycles & Mean Reversion



Bull market is a good time to clean the mistakes

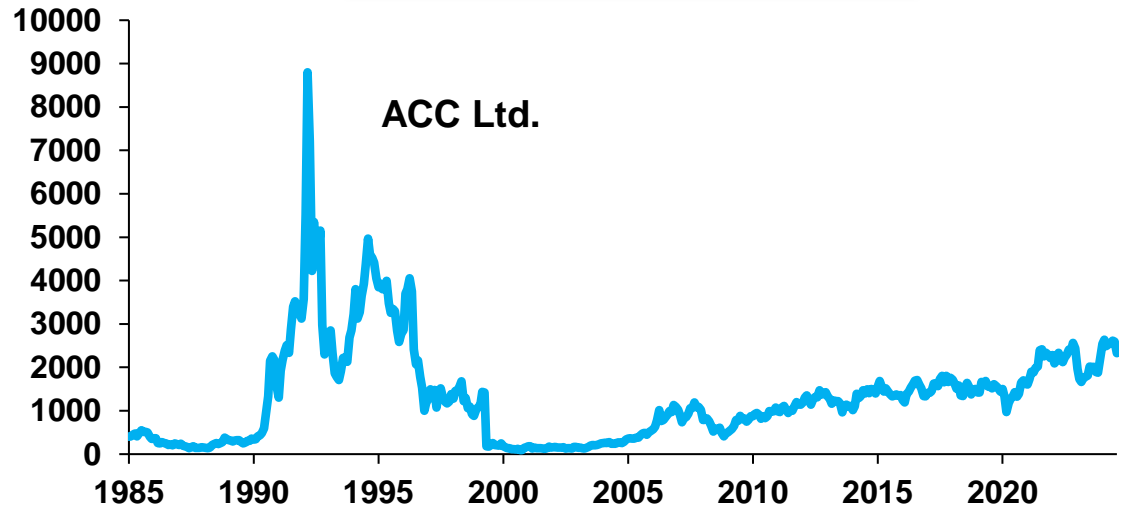
If You Don't Sell at the Right Time, You Get an Exit in the Next Cycle



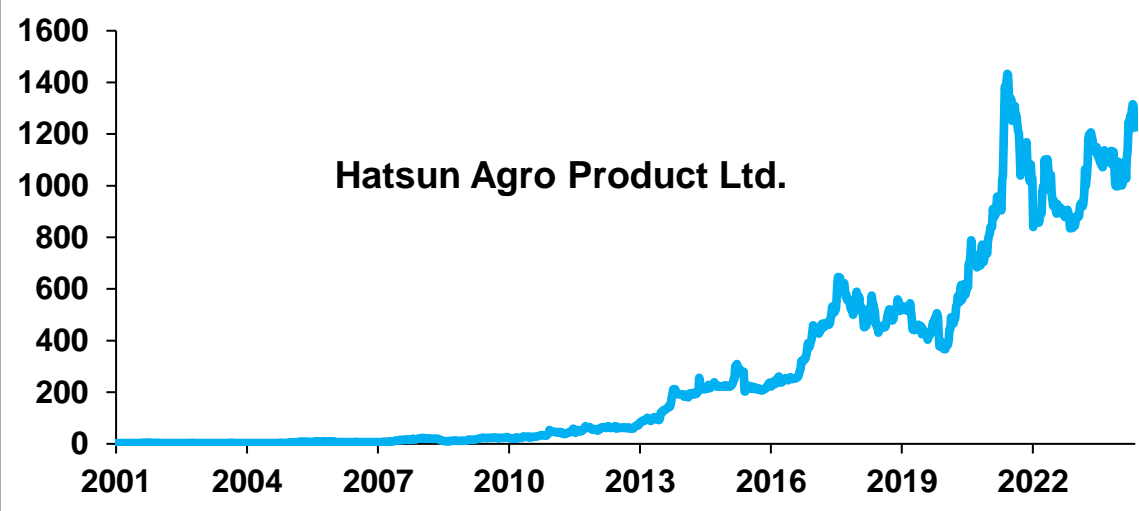
Akin to Kumbh Mela which happens once every 12 years

Experience is the Name, People Give to Their Mistakes

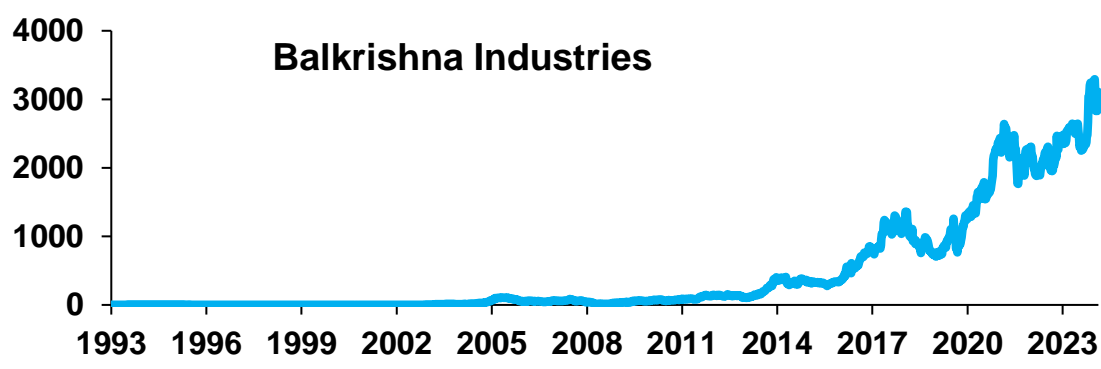
Held on to avoid paying STCG tax



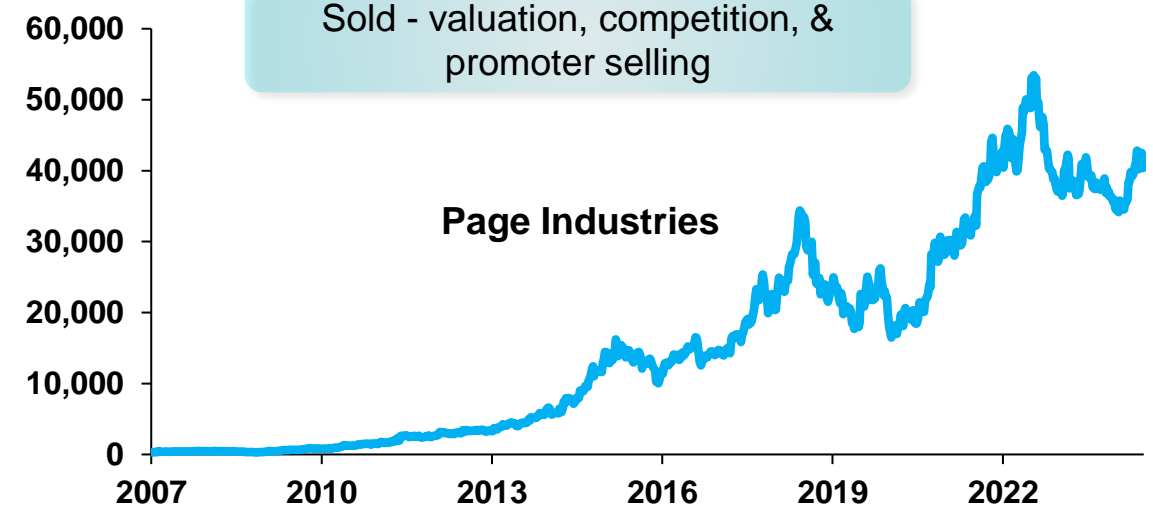
Sold - overvaluation, low float



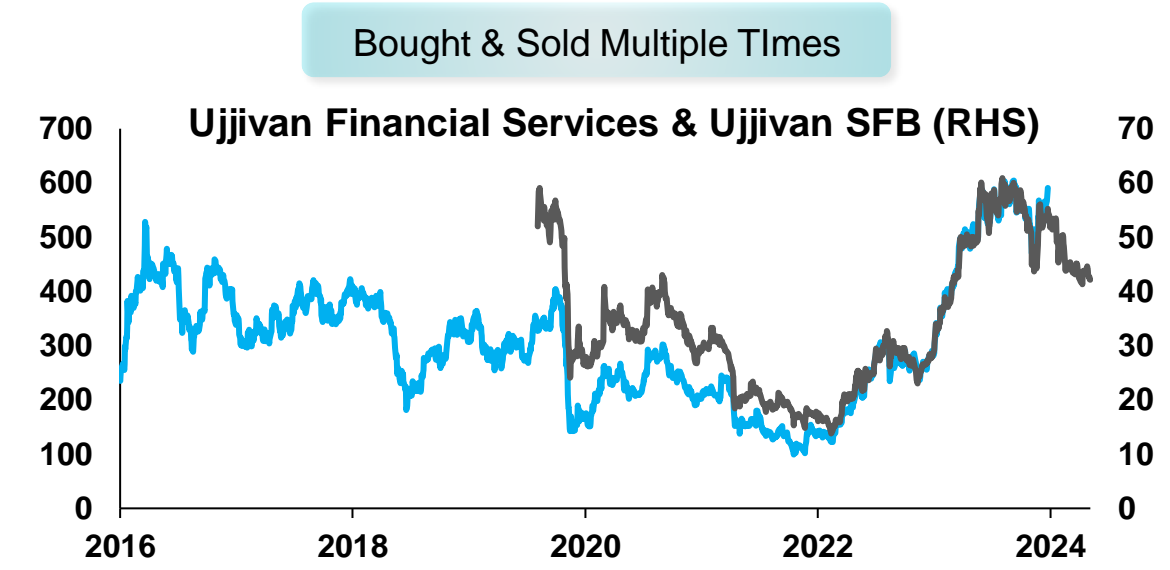
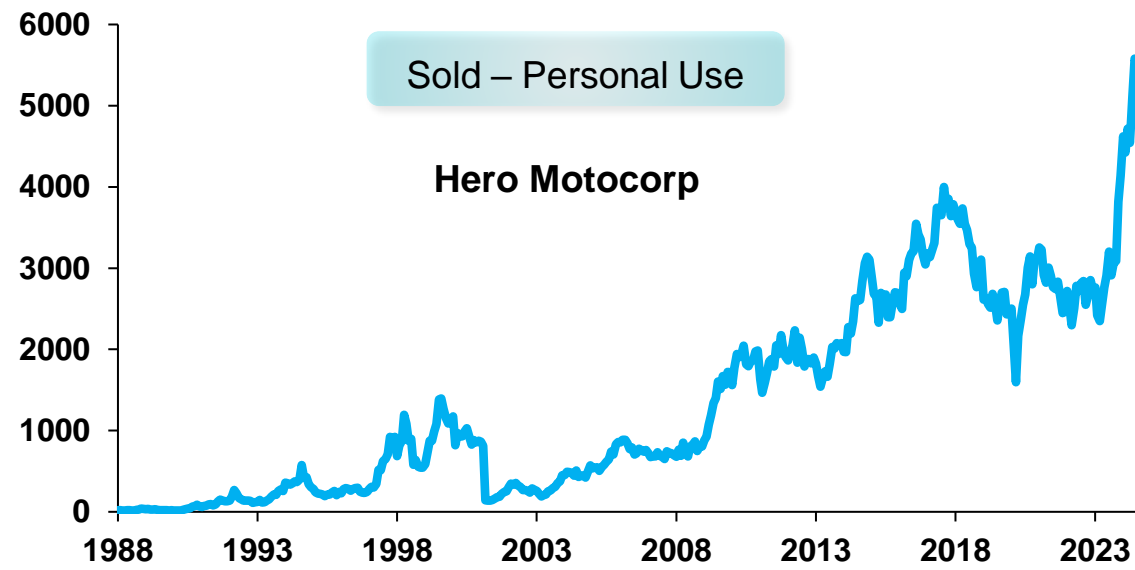
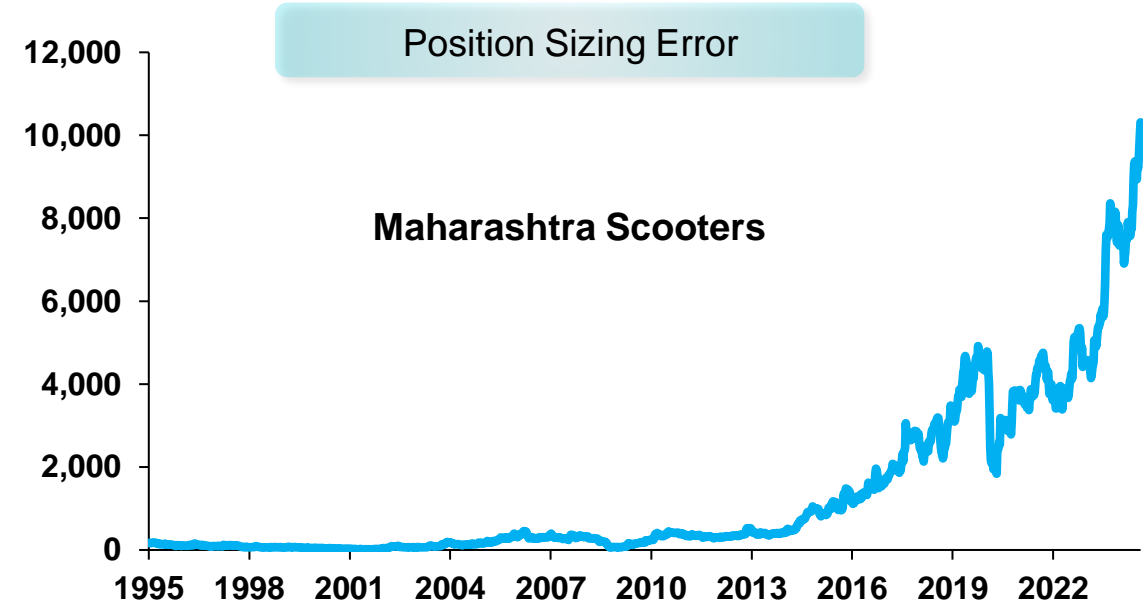
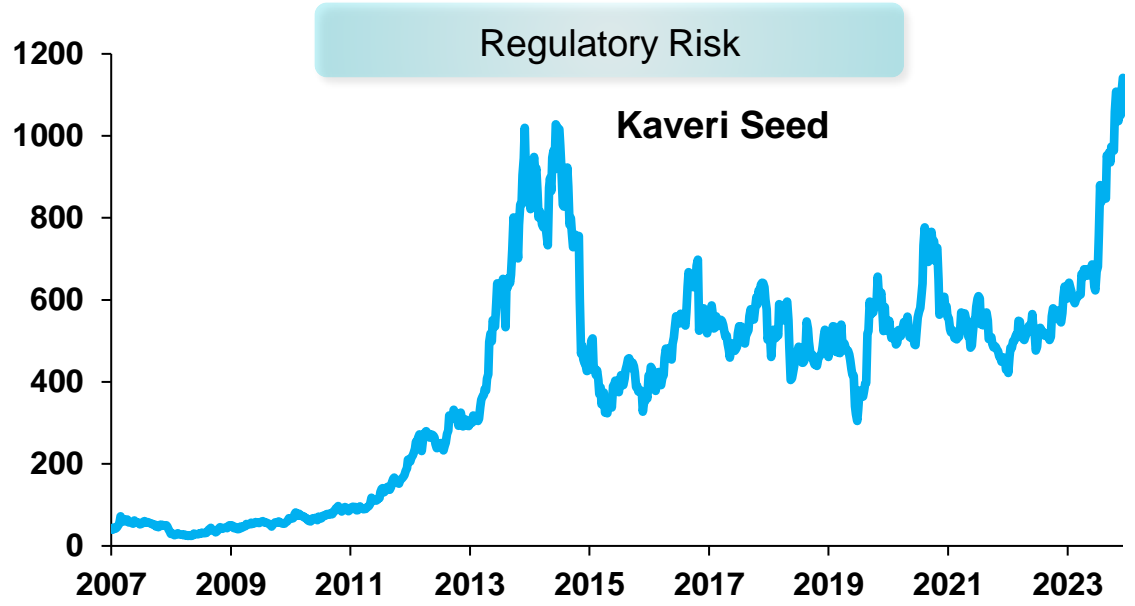
Sold - CEO left to start a competing PE funded company



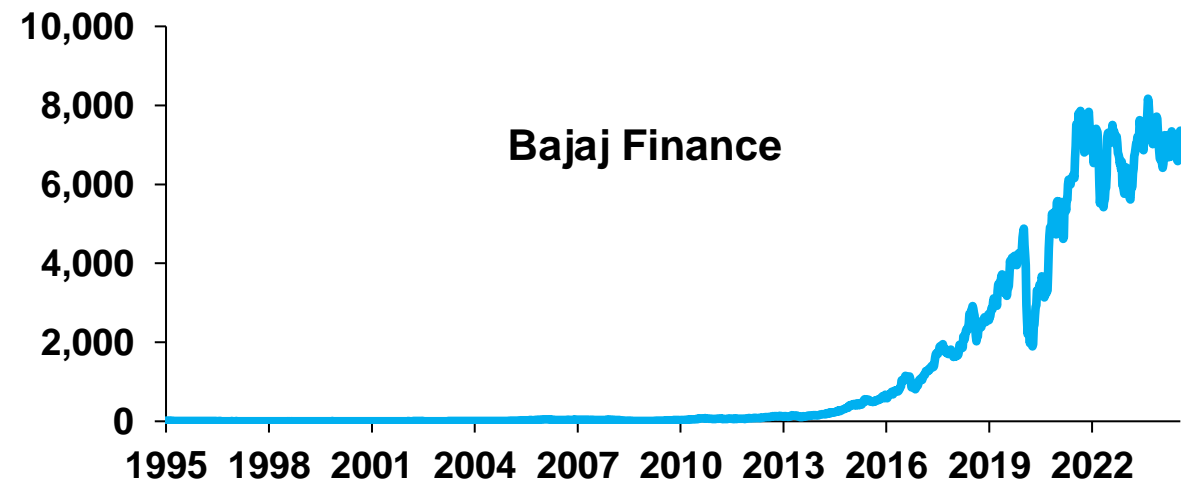
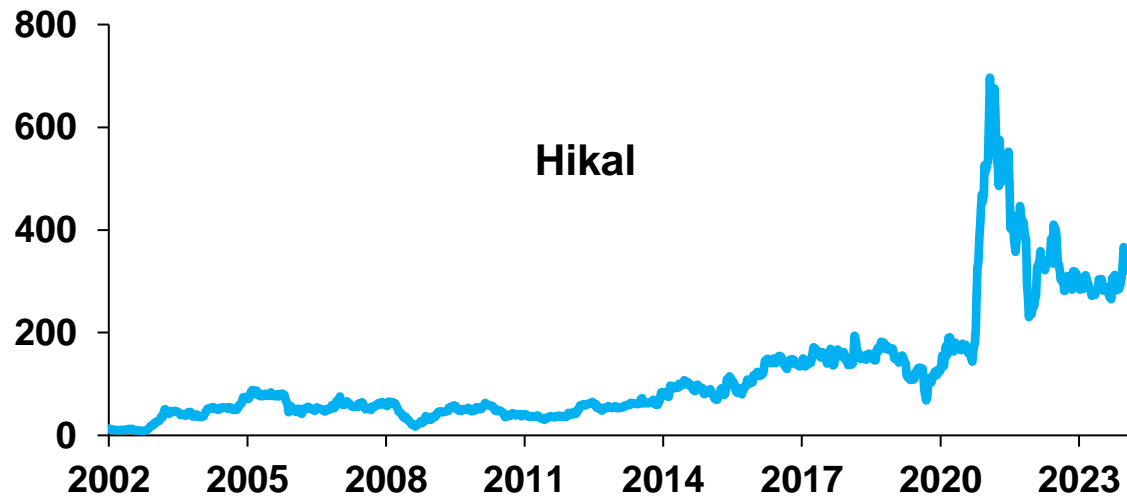
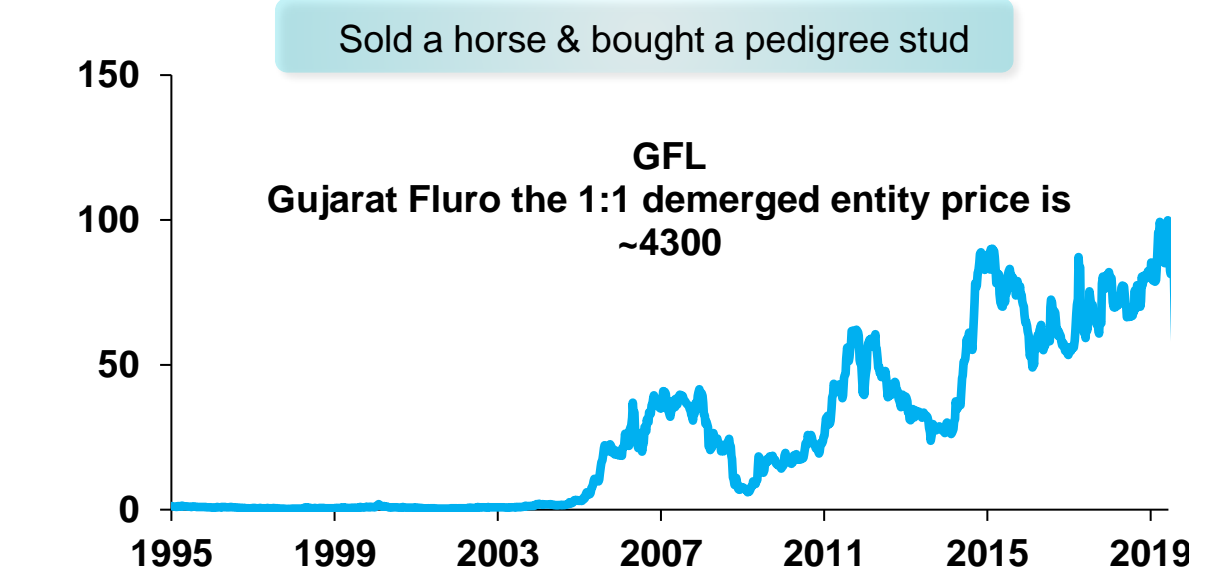
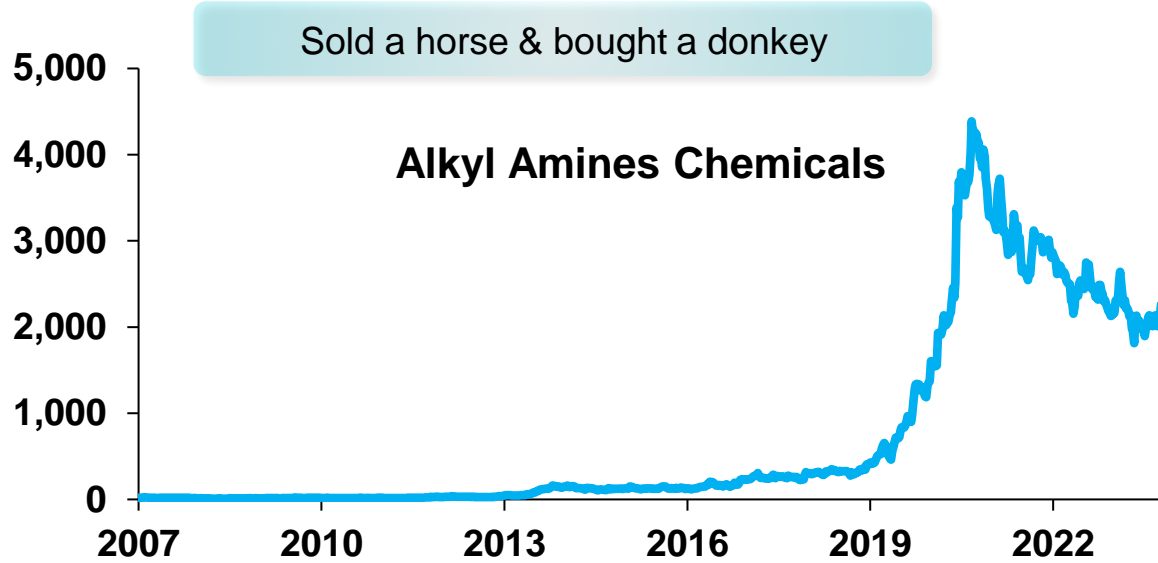
Sold - valuation, competition, & promoter selling



While Experience is a Good Teacher, She Sends Terrific Bills!

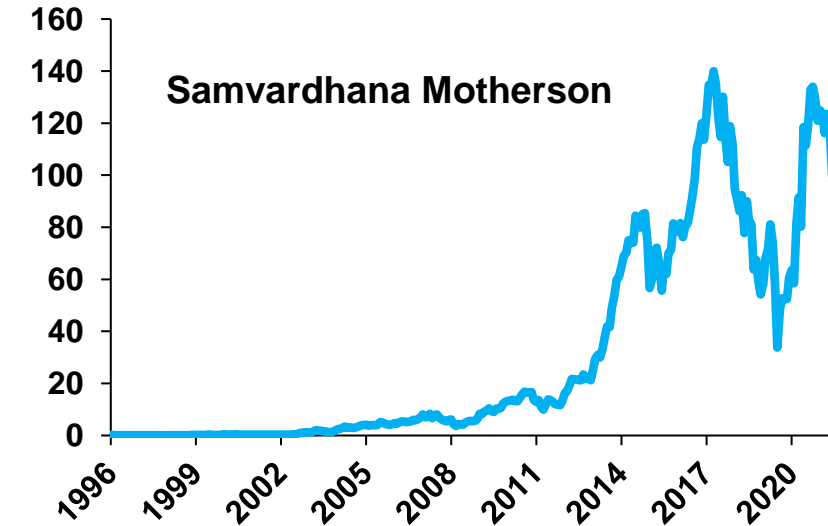
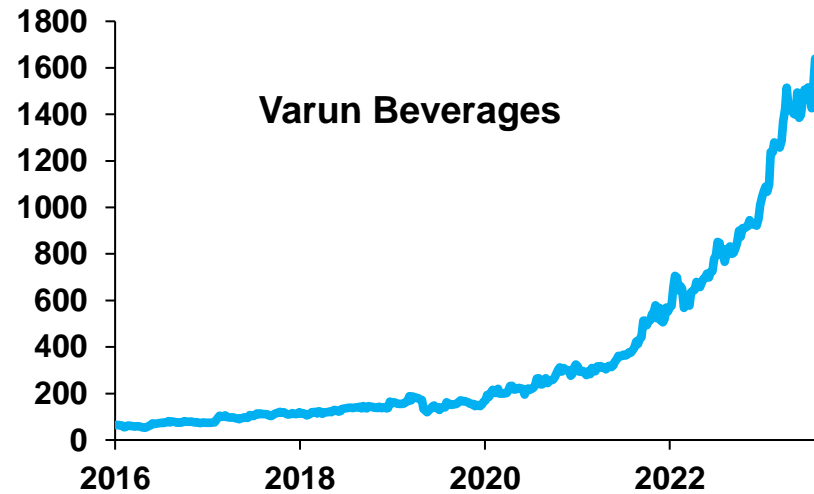
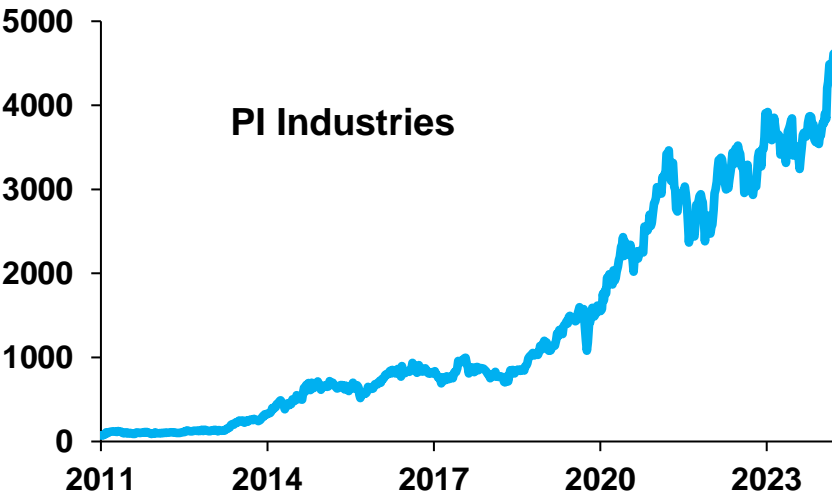
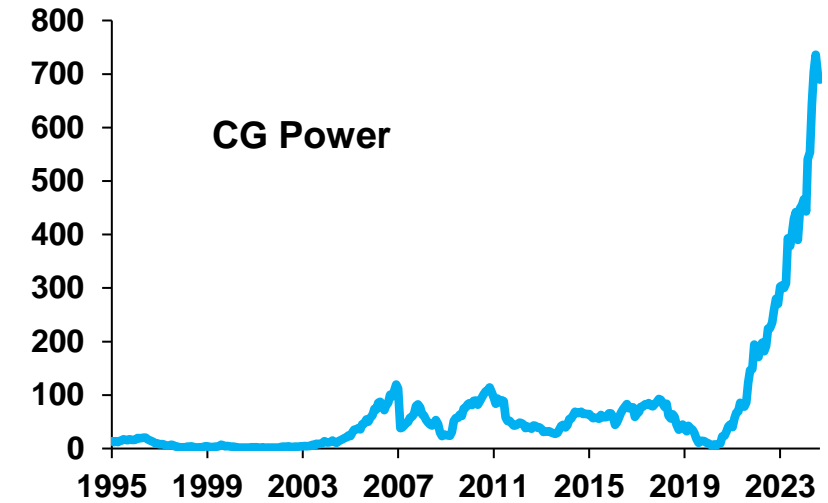
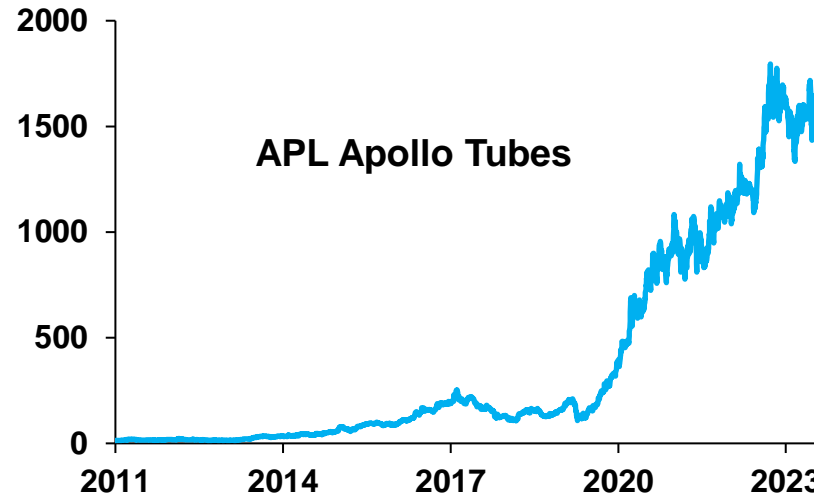
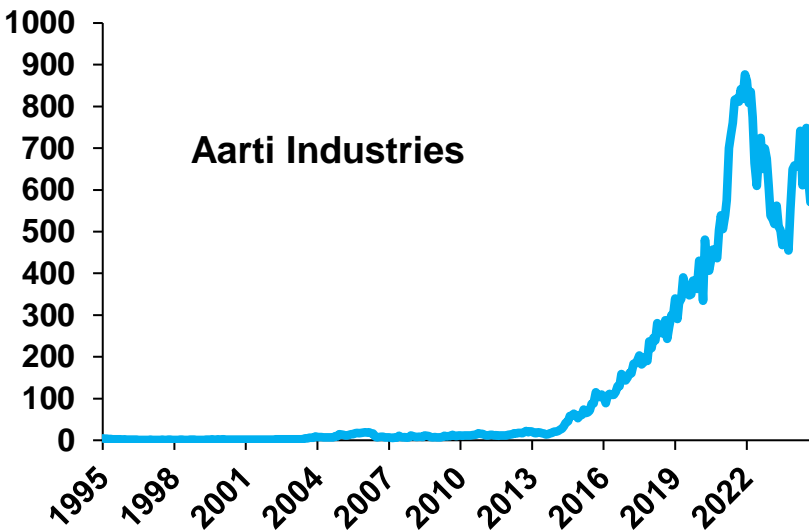


You Win Some, You Lose Some



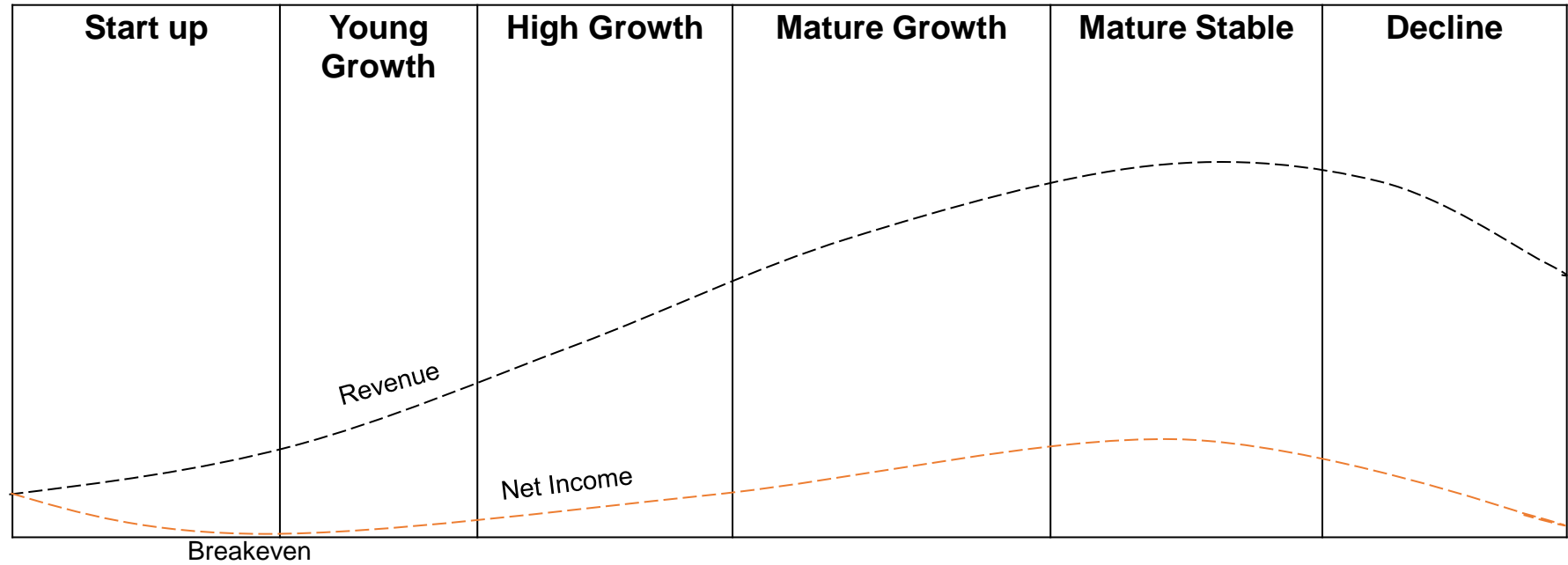
Switching comes with Reinvestment Risk – Some Pay off, Some Don't

Max Mea Culpa- Premature Selling based on Statistical Expensiveness



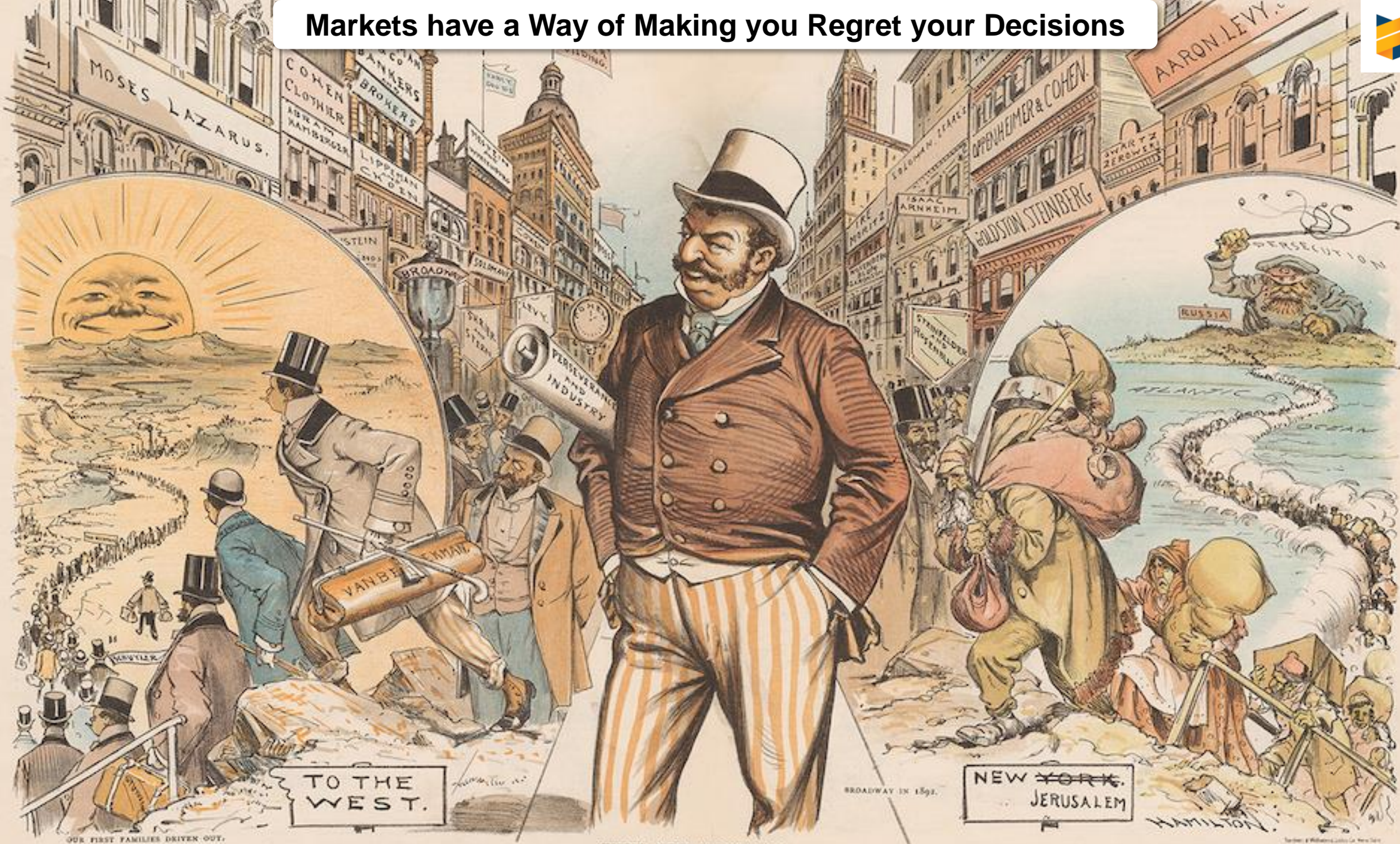
Being early is the same as being wrong

Companies Evolve & Values do Migrate



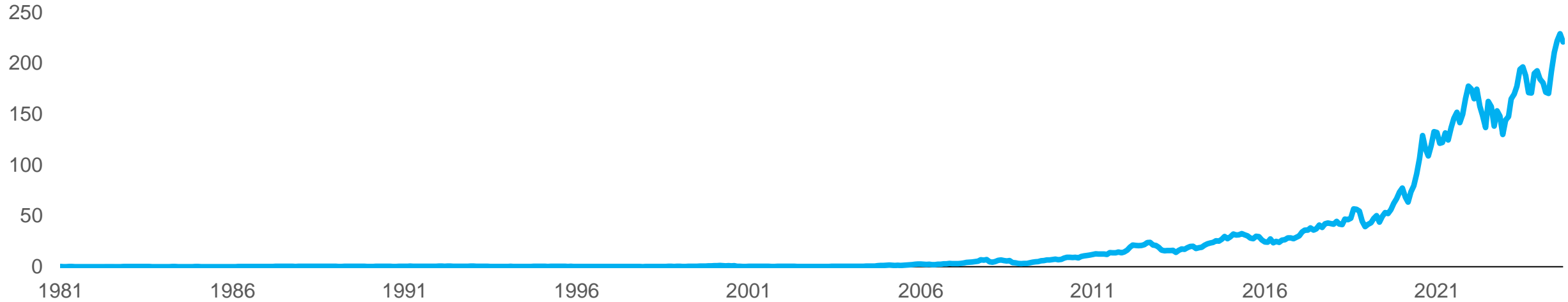
Revenue	None, Little	Growing Rapidly	Growing Rapidly	Growing Modestly	Growing Slowly	Declining
Profitability	Negative	Very Low	Low	High	High	High & Declining
Liquidity	Very Low	Low	Mid	High	High	High
Expected returns by marginal investor	Very High	High	Mid	Low	Very Low	Very Low
Investment action	Valley of Death	Small Buy Zone	Long Hold Zone		Small Sell Zone	Short sell zone

Markets have a Way of Making you Regret your Decisions



Regrets are inevitable but suffering is optional

3 Musketeers of Apple



Steve Jobs

Early Entry, Midway Exit & Re-Entry



Steve Wozniak

Early Entry & Midway Exit



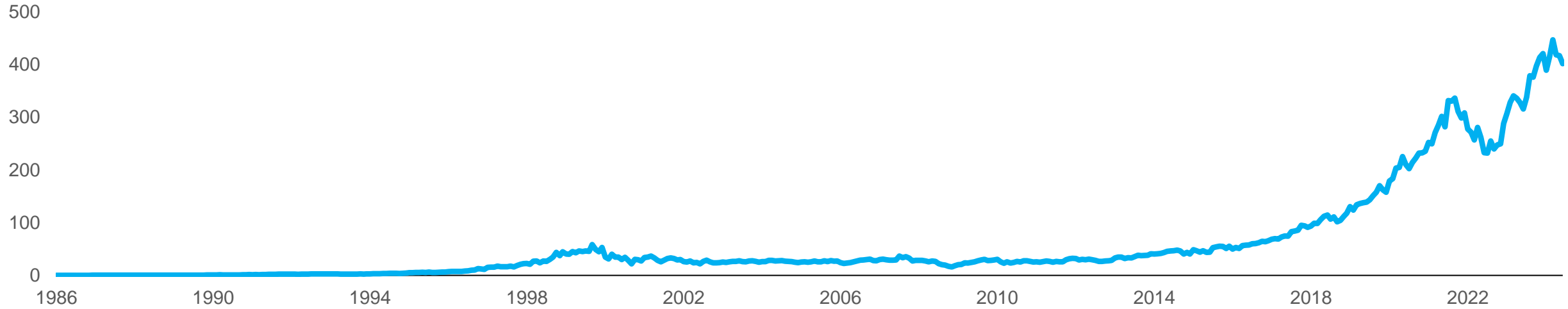
Ronald Wayne

Early Entry & Exit



“The most important quality of an investor is temperament, not intellect”- **Warren Buffett**

3 Musketeers of Microsoft



Bill Gates

Early Entry & Trimming



Steve Ballmer

Entry & Never Exited

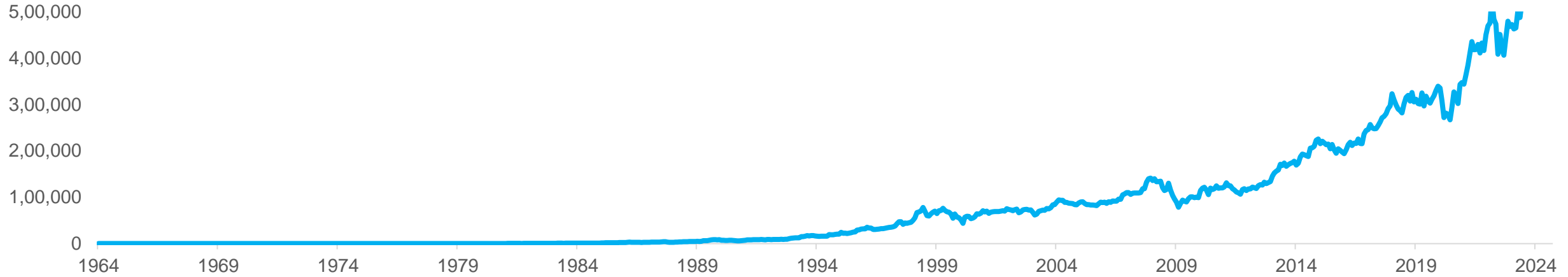


Paul Allen

Entry & Exit both Early

It's not about what you know, its about how you behave

3 Musketeers of Berkshire



Warren Buffett

Early Entry & Never Exited



Charlie Munger

Early Entry & Never Exited



Rick Guerin

Early Entry & Exit

“Risk comes from not knowing what you are doing.”- **Warren Buffett**



Markets have a way of finding your weakest personal trait & exploit it against you

Learnings- Key to Gain an Upper Hand over Biases

Maintain a decision journal
Premortem & postmortem- Tenth man for devil's advocacy
Regret minimization
Active pursuance of disconfirming evidence- to reduce opportunity cost
Comfort stock: difficult to sell a stock where one has insight, knowhow & knowledge
Investors should consider: trailing stop loss, time loss, tax loss
Staggered selling vs selling in one shot due to extremities of speculative markets
Time to sell is when equity is relatively cheap, debt is relatively expensive
Taxes are paid after profits- don't give up profits to save on taxes
Avoid premature selling- purely on valuation
If industry is doing well but company is losing market share, then investigate & if needed sell
Investing is a very forgiving business provided you don't cut flowers to water the weeds

History is filled with other people's mistakes from which we can learn in a cost-effective manner

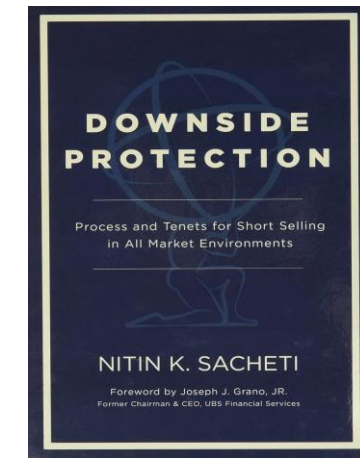
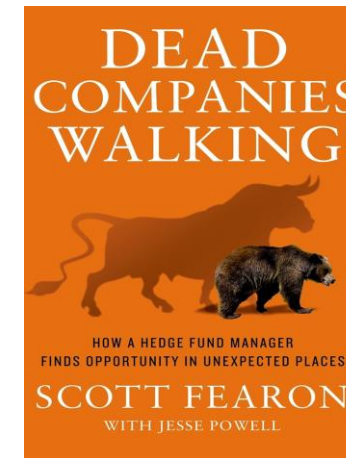
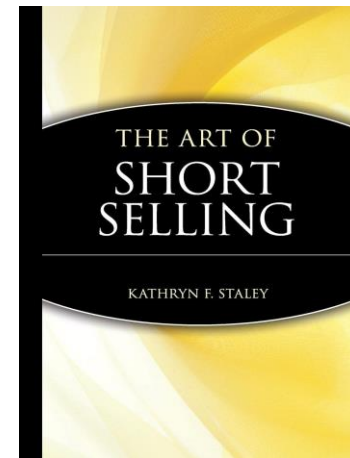
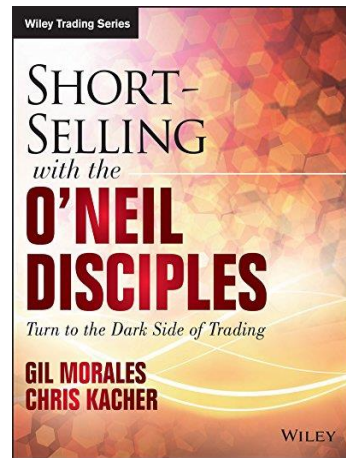
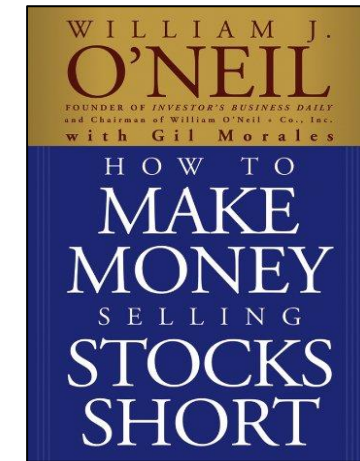
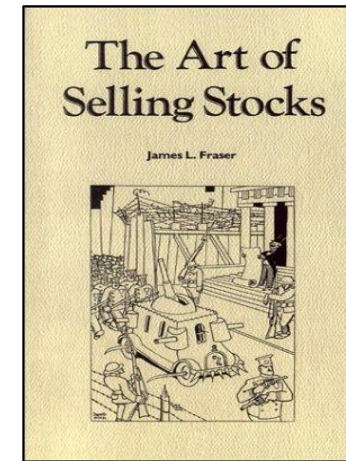
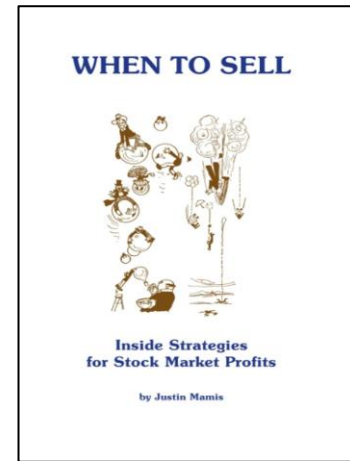
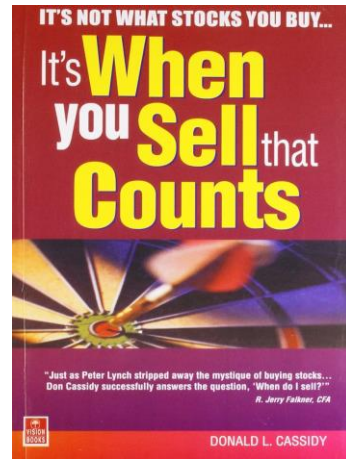
Additional Resources



“Experience is the hardest kind of teacher. It gives you the test first & the lesson afterward.” – Oscar Wilde

<https://www.libraryofmistakes.com/>

Books



Special Thanks to the Team of FLAME



Vishal Mehta



Mihir Shah



Ashwini Desai



Upasna Lamba



Utsav Adani



Anoushka Sanghvi



Naman Bohra



Akshit Gupta

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