

Honesty and Integrity Investment (HNI Investment)

Email for June 2016

Dear Friends,

Here are the details of performance of HNI investment as on June 2016 based on the share prices as on 30th June 2016.

Annualised Returns (IRR) ^{(1) (2) (3)}	HNI Portfolio	Nifty	Sensex
FY13	-10.6%	-5.3%	-3.7%
FY14	112.2%	21.1%	21.3%
FY15	21.6%	25.0%	23.0%
FY16	86.0%	-7.0%	-7.7%
From Inception till FY16	63.4%	4.0%	3.2%
From Inception till 30th June 2016	82.3%	8.6%	7.5%

(1) For all HNI clients and promoters (2) Inception was in August 2012 (3) Gross IRRs excluding the impact of HNI investment fees

As you might have noticed, we have changed our reporting style. Going forward we will not report "IRR during the quarter". The change is because of the two reasons. First, I do not want any of you to focus on quarterly performance. It's irrelevant. Long term performance should be the focus and reporting quarterly numbers is a distraction. Second, because we report IRRs, which is by far the best measure of reporting, the numbers tend to be overblown on a quarterly basis. It gets more accentuated if the holding period is short. For example for the current quarter, our portfolio value is up by ~35-40% but the calculated IRR is 576.6%!!. In changing my reporting style, I might be taking all fun and excitement away but it's the right thing to do so. For any purpose if you need quarterly numbers, just shoot me an email, I will be more than happy to share the numbers. They will also be available on our website (www.hniinvestment.com).

We exited one more stock with an IRR of 126.8% (19 months holding period). However let me admit one thing that the excellent performance during the quarter is because of sharp rise in a stock (~50% within a month of our purchase) which we have purchased recently. Such a quick rise in stock price is totally random and I will attribute it to my capability only if the underlying business performs over long term. Let's see what happens.

My strategy is to focus on protection of capital in real terms. The purchase meets this criterion very easily. I do not think beyond protection of capital in initiating a purchase. Actual return that we will achieve from an investment is a function of thousands of other factors which is very complex to comprehend at least for a callow investor like me. I will sleep well with this purchase and sleeping well is really important particularly when you have a 7 month old baby ☺.

Allow me to also use this communication as a means to educate you on physiological traps build into the manner of my communication to you.

First one is the statement I say all the time to my clients. *"I come up with stocks very infrequently"*. This is a very dangerous but true statement. It is true because we have actually invested in just nine stocks over last four years. It is dangerous because, it gives you an impression that our stocks are of superior quality. Cialdini called it as **"Power of Scarcity"** - an important physiological tool of persuasion. Whatever is scarce is generally perceived to be of high value. However the truth is that the quality of our investments has nothing to do with frequency of their discovery. It is totally a function of my capability. Rather i would like to argue that I am not capable enough to come up

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with more opportunities. I hope to overcome this infirmity. But I will not compromise on my investment discipline to overcome this weakness simply because I invest my own money.

The second trap comes into play when I say *"We outperformed Nifty/Sensex"*. Should I compare my performance to Nifty and Sensex? Is it not that I am trying to anchor (remember **"Power of Anchoring"** from last communication) you to a really low benchmark? NO NO and NO. This has never been the intent. I use Nifty and Sensex to compare my performance because a) comparison to broader market indices gives a broad overview of the equity environment in which the returns have been generated and b) given the highly flexible investment strategy that I follow, there is no other suitable benchmark that can be consistently used for next 30 years. Consistency of benchmarks is of utmost importance to us. We will never change our benchmarks. It's not a good policy to do so. In any case, you have my track record with you. You are completely free to compare it with benchmark of your choice to pronounce a judgment on it.

As Cialdini puts it, the greatest antidote of any physiological trap is the awareness of its presence. Let me assure you, that these physiological traps are totally unintended. Otherwise why will I give you the antidote free of cost?

Finally, let me finish this communication with a good news 😊. The SEBI registration is complete and you can verify my registration No. INA100004590 on SEBI website.

Happy to answer any queries that you might have on the investment performance.

Regards

Vaibhav Badjatya

"Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1" - Warren Buffet