

## Honesty and Integrity Investment (HNI Investment)

### Email for March 2019

Dear Friends,

Here are the details of performance of HNI investment based on the share prices as on 31<sup>st</sup> March 2019

<b>Annualised Returns (IRR) <sup>(1) (2) (3) (4)(5)</sup></b>	<b>HNI Portfolio</b>	<b>Nifty</b>	<b>Sensex</b>
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%
FY17	168.3%	21.9%	20.1%
FY18	66.4%	17.0%	18.8%
FY19	-19.2%	16.9%	18.3%
Q4FY19 – IRR	-23.2%	31.8%	33.4%
Q4FY19 – Absolute Change	-6.2%	7.0%	7.3%
<b>From Inception till 31<sup>st</sup> Dec. 2018</b>	<b>72.4%</b>	<b>11.3%</b>	<b>11.3%</b>
<b>From Inception till 31<sup>st</sup> March 2019</b>	<b>64.8%</b>	<b>14.6%</b>	<b>14.8%</b>

(1) For all HNI clients and promoters (2) Inception was in August 2012 (3) Gross IRRs excluding the impact of HNI investment fees (4) Return during the quarter is reported only when it's adverse i.e. negative or lower than Sensex/Nifty. Quarterly IRRs looks overblown due to compounding effects of short periods (5) Absolute change is calculated based on IRR numbers for the quarter

The portfolio value in absolute terms is down by 6.2% during the quarter. Overall the year has also not been good for us. In my email of April 2018, I had said that we did not deserve the returns we were making at that point of time. I hope you believed me then. Today I say it again that we do not deserve the returns we made till date on our recent investments. I hope you will believe me now as well. Let's see how we will perform on these stocks over long term. I continue to feel completely safe with these investments.

### Standing on the shoulders of Giants

Mr. Buffet has become very popular among the global investor's community. Many investors look at Mr. Buffet and tries to invest the way he does. Anyone who decides to invest like him needs to make sure that he/she a) is operating in similar investing environment b) has learned it right c) has execution and behavioural capability to do it and d) has similar holding periods. Unfortunately very few investors give thoughts to any of these perfectly rational preconditions. In fact, large numbers of investors are so much in aura of Mr. Buffet that they just want to do it due to their bias of liking a particular personality/outcome. Many street boys have seen Kohli playing on the green ground on television and they practise daily in their backyards hoping to become one. It's good that they are dreaming but unfortunately it's not good enough.

First, the investing environment in the US and in India is completely different. Political system, financial system and most importantly culture differ vastly in India and in the US. The system and efficiency of justice, exchange rate system, taxation, speed of decision making in central and state governments are totally different. Such large amount of differences in environment should ideally warrant caution to copy anything in any field from the examples of great success in the US.

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Second, investors have to learn it right. Unfortunately learning is not copying. A lot of institutions and individual investors/advisers consciously or subconsciously copy strategies or themes adopted by Mr. Buffet rather than focusing on logics and economic rationale of those themes/strategies. In fact there are many people without proper financial and accounting knowledge trying to learn the Buffet's way. In my view it's just not possible. Accounting is the language of businesses and it will be hard to communicate without learning the language. The basics of finance and accounting are not that tough but you cannot jump the gun.

After learning, one has to make sure that he/she has execution and behavioural capability to do it. Do we have years and years of learning on a business to reach a right conclusion? Do we have proper resources and capability to meet, speak and judge the managements? Above all are we behaviourally capable to buy stocks when they do down? Are we behaviourally capable to hold on to our beliefs when stocks go down substantially from the price you bought them? When you ask these questions to any investor, he will say yes I am capable. *But Benjamin Franklin once said "The doorstep to the temple of wisdom is knowledge of our own ignorance"*.

Last but not the least; one has to make sure that the holding period for the adopted strategies is same as that of Mr. Buffet's. For some very popular strategies/themes Mr. Buffet has holding period of forever. I see mutual funds that have great amount of churn due to their own decisions or due to regulatory requirements, adopting such strategies. I see many individuals who need liquidity 1,2,3 years down the line investing in such strategies. Even institutions whose clients frequently invest and redeem, adopts such strategies. Will investing the Buffet way work for them over long term?

Apart from all of above there is also one very big problem nowadays in investing the Buffet way. One day my three year old daughter was sleeping. I wanted to test her knowledge about investing and so I woke her up in the middle of the night and asked –“How should you invest?”. She replied perfectly – “I will invest in great businesses with a moat around them, run by great management at a fair price and hold them forever.” Her reply is the biggest hurdle in investing the Buffet way. Anything which is so widely popular should already have reached or soon will reach its full potential. *“There is not much menace from rarely followed foolish wisdom than from widely and blindly followed conventional wisdom”*. In India as in any other country, there are only a handful of businesses which are truly great. However there are plenty of investors with plenty of money chasing those businesses. Whenever demand exceeds supply, high prices are guaranteed. But in world of equity investing with severely distorted incentives, people either find it convenient to forget important piece of their teacher's advice i.e. to pay a fair price or find ways to justify an unfair price. Naming what they do as Mr. Buffet's strategy is very helpful in doing exactly that whether it intended that way or not.

All of this is not to say that you cannot invest in anyway in India or you cannot invest the Buffet way in India. What is important is not to focus on what Buffet does? It is to find out why he did what he did? It is to gain knowledge, wisdom and reason. Only that can take us further. *Isaac Newton rightfully said in 1675: "If I have seen further it is by standing on the shoulders of Giants"*. Mr. Buffet is truly a giant of investing. It is up to us as to whether we want to be on his feet to see what he has seen as a six year old or to be on his shoulders to see what he has not seen yet.

That's it for the quarter from my side. Happy to answer any questions that you might have...