

Honesty and Integrity Investment (HNI Investment)

Email for September 2016

Dear Friends,

Here are the details of performance of HNI investment as on Sep. 2016 based on the share prices as on 30th Sep. 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 30 th June 2016	82.3%	8.6%	7.5%
From Inception till 30th Sep. 2016	88.5%	11.5%	10.2%

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

As indicated in the last quarter, i will not be reporting quarterly performance number in the quarterly communication. However I am making one more change (hopefully the last ☺) in the stated reporting policy. I will be disclosing the quarterly numbers when a) there is an underperformance relative to Sensex or nifty **OR** b) The return during the quarter is negative. The policy of reporting only adverse performance and ignoring the good, will make you strong (or at least reveal the weak) and me more transparent. All of them are desirable outcomes. **Narayana Murthy once said –“Let the good news take the steps and bad news the elevator”.**

Market conditions continue to be tough for making new investments. Thus promoter’s deployment continues to be very low at only 35% at the end of quarter. After one more exit during the quarter, we are left with just 3 stocks in our portfolio. Sometimes inaction is the best action. However our recent purchase continues to serve us well.

The latest exit has generated an IRR of 39.2% (1.5 year holding period). Wow!! What a great achievement. I am amazing, I am brilliant and I am an excellent investor. Is it really so? No No and No. It’s not the correct way to think about it. The actual return generated on a stock should not be benchmark to decide whether it was a good or bad investment. It should be the underlying performance of the business relative to the price paid. It’s now quit clear that investing in this stock was a mistake. In spite of preaching you again and again about avoiding mistakes, I did one. Human beings will always be human beings. I will keep trying to avoid mistakes but I cannot guarantee that there will be none. But what I can guarantee you is that I will also suffer from those mistakes. I better be.

When I bought this stock, facts justified the purchase. Now facts justify the sale. However facts may emerge in the future to make it a good investment again. We will not shy away to buy it again if it happens. One of the toughest biases to overcome is a bias created by your own experiences. *Experience is not an asset if you are not ready to repeal it.* Only way to avoid this problem is to simply follow the facts. **Keynes once said – “When facts change I change my opinion. What do you do?”** It might sound very foolish to keep changing the opinion but *having a false foolish perception is far better than following the path of irrational reality* and loosing hard earned money. Ultimately my objective is to serve you (which is the same thing as, me) well.

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You might also ask why I am making you count my mistakes. Well it's better to follow the **Louis Vincenti's rule: "Tell all your truth so that you won't have to remember your lies."** I certainly do not want to remember my lies to the people with whom I expect to have lifelong relationship. I hope you wish the same.

That's it from my side. As always, I am happy to answer any queries that you might have on investment performance. And yes wish you a very happy and prosperous Diwali!!

Regards

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