

Honesty and Integrity Investment (HNI Investment)

Email for Sep 2020

Dear Friends,

Here are the details of performance of HNI investment based on the share prices as on 30th Sep. 2020:

Annualised Returns (IRR) ^{(1) (2) (3) (4)(5)}	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%
FY17	168.3%	21.9%	20.1%
FY18	66.4%	17.0%	18.8%
FY19	-19.2%	16.9%	18.3%
FY20	-45.8%	-28.6%	-26.9%
From Inception till 30th June 2020	9.7%	-0.2%	0.4%
From Inception till 30th Sep 2020	39.4%	4.9%	5.3%

(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

Whatever is happening in the markets, it's really surprising. As of now markets are trading at just 9-10% lower than its peak. Such small corrections can happen even in normal times. So basically market is saying that COVID never happened. Even if we assume that COVID never happened, the current market levels are not justified considering the pre-covid situation of corporate India. In my view, by all measures, markets continue to be highly overvalued.

There has been a sharp improvement in our portfolio performance during the quarter. It's due to the fact that the portfolio in absolute terms is up by around 44% during the quarter. For your convenience I am adding more data points below. Please note that there have been no changes in the portfolio during this entire period.

Absolute Values	HNI (Indexed to 100)	Nifty	Nifty Small Cap 100	Nifty Mid Cap 100
Dec-19	100.0	12168	5835	17103
Mar-20	69.8	8598	3595	11704
Jun-20	94.7	10302	4615	14704
Sep-20	135.8	11247	5823	16983
% Change from last quarter				
Mar-20	-30.2%	-29.3%	-38.4%	-31.6%
Jun-20	35.5%	19.8%	28.4%	25.6%
Sep-20	43.5%	9.2%	26.2%	15.5%
% Change Since Dec 2019	35.8%	-7.6%	-0.2%	-0.7%

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The Abhimanyu Chakravayuh for great investors: Get in and die

Once there was an investor. Let's name him Mr.P. He was passionate to learn investing, do right things and grow. He worked hard year after year for many years. As always hard work, patience and quest for wisdom paid him well. He invested across many good companies ignored by the market and when the market understood the true potential of these companies, he had his reward. He became rich mentally and monetarily.

He was ambitious and he wanted more. There is nothing wrong in being ambitious. Moreover as with everyone, he wanted fame and public recognition/appreciation of his abilities. Interviews with TV channels and publicity on social media were a very good way to earn fame and to market his investment management business. He started discussing his stocks and the investment thesis on various channels, public forums and social media. As stocks were really good, market took notice of fundamentals and agreed with Mr. P. His popularity reached heights.

Due to his popularity, whenever he named a stock as a buy, it was regarded as god's advice to riches. The moment the words came out of his mouth his fans scrambled upon each other to the buy the stock. This created a huge concentrated public buying in stocks which he has already bought into resulting in increase in stock prices over just weeks of his interview/social media announcement. That has some serious unavoidable consequences. And the journey to ruin started.

First ones to exploit his popularity were the employees of the TV channels. They would build the position in the stock before airing of the interview and quickly make good money in a short time frame. TRP benefits were for the channel. Second one would be the traders and speculators. They would rush to buy his stocks quickly and sell to his fans that are ready to pay any price for the stock. This would enable very handsome profits in a short time frame. Third would be his clients themselves. They know Mr. P will give interview sometime soon on TV/social media and stock will shoot up. So they buy more. All of this has one common effect - the short term rise in the stock price became supernormal rise. This quick rise in stock prices boosted the portfolio performance of Mr. P's investment management business. He started witnessing AUM surge, number of client's surge and what not. As a result popularity and fan following surged. The vicious cycle was well established and in fact accentuated to an unbelievable level.

All this gave extra ordinary confidence to Mr. P in his stock picking abilities. He tried various kinds of investing and all of them worked. It worked not because of the solid fundamentals of the companies he is investing into but because of side effects of his popularity. So his mistakes were covered due to his popularity. If you do not realize your mistakes how will you correct them and how will you learn from them?

In some cases, even if Mr. P realized the existence of vicious cycle, he decided to exploit it. Now he will do the process intentionally and sell the stock during the sharp appreciation period post his interview or use this appreciation to show excellent portfolio performance during downturns. No need to say, no popular investor comes on TV/social media to say that I am going to sell stock XYZ soon but they conveniently come to say I have bought the stock XYZ. His greed, his ambition and his envy with competitors overtook his integrity.

And there are also other side effects of this whole saga. Managements who are more interested in manipulating share prices of their companies get attracted to Mr. P. They treat Mr. P as their friend, provide him free access and sometime give him privileged information about the

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business/corporate action. Mr. P impressed by the “friendliness” of the management gets positively biased. Knowingly or unknowingly he starts contributing to fulfilment of management’s objective of manipulating share prices. He increasingly gets surrounded by unethical managements. One should be careful of the company one keeps. A Japanese proverb is worth mentioning here - ***“When the character of a man is not clear to you, look at his friends”***

So now he has lost his learning, wisdom and integrity and what’s left is just his continuing strong portfolio performance.

When a chef loses his own taste buds, his restaurant is unlikely to serve good food for long.

That’s what exactly happened. Over confident Mr. P, picked few really bad stocks and his fans started questioning. But it was manageable because he was able to exit profitably based on his interviews. But then learning loop was also blocked so he kept picking bad stocks and now lots of fan started doubting the stocks Mr. P was investing into. The vicious circle was slowing down. Soon enough it lost all of its acceleration. Now since the fans were not impressed, no one was interested in oiling the wheel. No TV anchors, no speculators, no traders. Now only way for Mr. P to come back on track is to use his wisdom. But unfortunately he has lost that as well due to his greed, ambition and envy. Mr. P is now more engaged in farming in his backyard and feeding his pets. May be one day he can regain his lost mojo. He is trying again but unfortunately his methods have not changed.

I have seen full cycle of many Mr. Ps till date. I know at least three more who are in the middle of this journey. I am afraid that their fate will be no different.

Unfortunately only few learn from the experiences of others.

And the learning’s are that one should a) never name their stocks to large public b) never disclose their investment rationale (to encourage people to do their own work) c) focus on maintaining integrity d) focus on efforts than outcomes and e) continuously think and work to improve his/her own wisdom. Unfortunately it’s not easy to do all of these because it requires patience, it requires generosity and it requires perseverance.

That's it for the quarter from my side. Happy to provide any clarification you need on the investment performance.