

Honesty and Integrity Investment (HNI Investment)

Email for June 2021

Dear Friends,

Here are the details of performance of HNI investment based on the share prices as on 30th June 2021:

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%
FY21	104.7%	71.1%	68.2%
From Inception till 31st March 2021	31.7%	16.0%	16.1%
From Inception till 30th June 2021	35.8%	17.2%	17.0%

(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

We have done well during the quarter. But we are not alone in this experience. Most of the investors/investment managers have done really well. This is a market where most of the stocks are rising. You can buy anything and there is more than 80% chance that it will provide you positive returns. There is no need of doing any research to buy the stocks these days; you just have to buy one. This is a kind of market where everyone is happy. When everyone is happy, no one should really be happy. We have earlier seen this kind of market in 2016-2018. We have no option but to wait for things to cool down on its own. It happens always.

This period is a very good time to sell few stocks should they become overvalued as compared to their intrinsic value. We are more inclined to sell in this market than to buy. The time is also good to take a pause and see what mistakes we have committed in the past so that we can avoid them in the next cycle. I have started to critically analyse my past. I have committed tremendous amount of errors of omissions which we should correct in the next cycle. I will share more of my learning's as and when I close this exercise. But one thing is clear- we have failed in optimum deployment of capital and it has to be corrected. I will correct it but in the next cycle because we should be cautious to not implement right learning from ones past exactly at the wrong time.

Some Thoughts on Central Banking/Monetary Policy

- The fast deterioration of independence of central bank in India worries me a lot. We will pay a heavy price for that.
- We paid the heavy price for allowing restructuring to avoid large scale NPA during 2010-2013. We will do so again with COVID one-time restructuring. We should inculcate the habit of picking up the can, see what's wrong with it, fix it quickly, cut the permanently damaged parts and let it roll again rather than kicking the can down the road. Else the can will keep leaking.

Honesty and Integrity Investment (HNI Investment)

- Loan restructuring is back from RBI. The problem is not the restructuring per se but its implementation by banking officials whose incentives are aligned to misuse it. Correctly so RBI is focussing on creating walls to stop the misuse. But in my view the walls will be thinned, first by pushback from banks in the name of non-eligibility of the borrowers and second by pressure on “flexible” RBI
- It’s not the fault of the RBI governor. He has his own independent view and doing what is right in his independent view. But he has been appointed because his own independent views are aligned to the government’s view. This is the government’s way to promote independent central bankers!!!
- I wonder what the thinking in RBI these days is. Massive excess liquidity is a recipe for disaster over long term for inflation. Time and time again it has been proven. May be I am wrong this time. I better be.
- Through loans you can provide them liquidity, but it does not solve the problem of solvency and it will play out over next few years no matter what you do for them through loans
- After great depression of 1928, everybody accepted that central banks response was wrong and they should have loosened monetary policy at that time. Post this COVID crisis, in next 5-10 years, we might change that assessment. Every question you get in economics, you should then say, “And then what?”
- The seeds of inflation were sown during great financial crisis but fortunately and rightfully so, they were not watered. But now it’s raining heavily. We need to see how/whether we will provide nutrition to them and whether we would be able to cut them, should they grow
- I just wonder about the concept of core inflation!! What can be more core to a nation/family than food and energy? How one can exclude these items from the core?

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