PORTFOLIO FACTSHEET

April 2024

Are the markets overvalued? The recent surge in the valuations of small and micro-cap companies on Indian bourses may be prompting this question is the minds of many investors. While the strategy of buying the smallest dips in the market has been met with uncanny success, history is replete with instances where such audacity has been met with abrupt reversals. However, if this question occupies your thoughts, we propose a surprising assertion: It is a wrong question to ask! Although it captures considerable attention, we will provide data showing its relative unimportance. There are other, more critical questions that remain unasked.

Are the markets overvalued?

In our March 2024 factsheet, we extensively discussed our perspective on being in unprecedented empirical territory. We maintain our stance that the factors driving the market rally—namely the earlier-than-expected Federal Reserve pivot and the BJP's victory in three state elections—have either reversed or were already anticipated in the valuations prior to the outcomes (link).

We elaborated on how retail capital inflows are propelling valuations upward, and discussed how a decrease in liquidity coupled with minor miscalculations in assumptions have historically precipitated reversals in valuation premiums.

What then is important?

While opinions on market valuations are informative, they do not hold as much significance in our long-term investment journey as one might think given the attention they receive. Indeed, there are more critical questions that often go unasked.

These pertinent questions include: (1) the proportion of investible capital to deploy at present, (2) the likely broad market trajectory over an extended period, such as 10-15 years, and (3) the selection of a portfolio framework that is expected to generate alpha over the indices. Let us explore each of these aspects in greater detail.

The data to start with

Let us journey back to the year 2008, a time when the markets were thriving, seemingly the perfect era for investment. Yet, amidst this fervor, let us assume that we harbored concerns that the market was overheating and opted to delay our investment.

By a stroke of luck, the global financial crisis ensued, causing India's frontline index, the Nifty, to plummet by over 50%. We took advantage of this downturn and started our investment journey right at the bottom of the market correction in 2009.

Following this initial investment, we continued to generate income each month and consistently reinvested it into the markets, or as colloquially known, Systematic Investment Plan (SIP).

After 15 years, this strategy yielded an annual Compound Annual Growth Rate (CAGR) of 12.55% — a commendable return for such an extended period.

Now, envision a different scenario in which fortune did not favor us. Suppose we had the capital in 2008 and decided to invest immediately. Although disheartened by a market decline of 50%, we persevered in generating income and continued our investments. Again through SIP.

At the conclusion of the same 15-year period, this strategy would have resulted in a CAGR of 12.45%. Indeed, this represents a mere 10 basis points lower annual difference. So much, then, for the supposed advantages of impeccable timing.

The analysis thus far has assumed uniformity in our initial investment and subsequent monthly contributions. We shall now explore various combinations of initial and ongoing investments. For detailed information, please refer to Exhibit 1 below.

Exhibit 1: Timing the market

Timing the market				
Study conducted	Feb-08			
Setting	Before GFC			
Horizon	15 years			
Investible surplus over that time	INR 100			
of that, investible at start (%)	**1%**	**5%**	**10%**	**20%**
Returns if investments start at peak - Feb 2008 (%)	12.45%	12.10%	11.81%	11.31%
Returns if investments start after 50% index correction - Feb 2009 (%)	12.55%	12.92%	13.21%	13.65%
Difference in returns (ppt)	0.1%	0.8%	1.4%	2.3%

If we revise the analysis by adjusting the proportions of the initial investments relative to the total investment over 15 years, we discover that the impact of timing on returns becomes more pronounced. However, this effect is not catastrophically significant.

In an extreme scenario, consider if you had to invest your entire life savings all at once, without the opportunity to make further additions over the next 15 years. In this case, the timing of your investment could significantly influence your returns, potentially differing by as much as 5.4 percentage points over those 15 years—a considerable margin. However, the probability of perfectly timing the market to invest precisely at its lowest point, particularly during turbulent times, is exceedingly low. Therefore, this scenario is not very practical for a realistic comparison.

Nevertheless, there is also a flip side to consider. Waiting for the market to correct comes with significant issues. Investors often find themselves caught between two opposing forces—on one hand, the fear of missing out (FOMO) begins to set in, compelling action; on the other, the potential losses incurred by waiting for a correction can exceed those experienced during the correction itself. Exhibit 2 below summarizes the consequences of missing the best investing days in the market.

Exhibit 2: Missing the days with best returns

	Days	Returns
Since May 2000	**5,970**	**1595%**
Top 10 days	0.2%	57%
Top 25 days	0.4%	84%

We conducted this analysis covering a span from May 2000, encompassing nearly 6000 trading days, and discovered significant impacts on our returns linked to missing key trading days. Specifically, missing just the best 10 trading days during this period would decrease our returns by over 57%. Furthermore, missing the best 25 days in the market would result in a reduction of our returns by a staggering 84%. Indeed, it becomes clear that a bulk of the returns are generated on a select few days.

As demonstrated, attempting to time the market proves to be a futile exercise. Even with extreme luck on our side, the plausible outcomes do not offer substantial upside, and instead pose significant downsides. We are far better off distributing our cash flows evenly over time, rather than attempting to time the markets altogether. This effectively addresses the first question posed in my initial write-up.

Answer to question no. 2

Indeed, the choice of the underlying investment significantly influences the analysis outcomes. For instance, if we switch the underlying investment from Nifty 50 to the Nikkei 225 Index and adjust the timeline to start around 1987, the results would diverge markedly. The Nikkei 225 has experienced nearly zero index returns for over 30 years, illustrating how geographical and market-specific factors can drastically affect investment outcomes.

This leads us to our initial query: What is the projected broad market trajectory for India over the forthcoming decade?

For long-term projections, reliance on demographic changes is essential, and India is favorably positioned in this regard. Over the next two decades, the working-age population of India is expected to rise from 830 million to over a billion — a growth exceeding 20%. Such an increase is transformative for most nations.

Secondly, India ranks within the top five nations globally by absolute GDP, yet it stands at 127th in per-capita terms. With a per-capita GDP under USD 2,500, the contribution of 55% from services is an unconventional growth pattern. Typically, a nation with low per-capita income benefits from lower labor costs, facilitating its emergence as a global manufacturing hub. This position often leads to a current account surplus through higher exports over imports. If strategically invested, particularly in areas of vulnerability such as crude oil for India, this can fortify the nation's financial standing.

Over the years, India has made limited progress in addressing this issue. Recently, through government initiatives such as the Production Linked Incentive (PLI) scheme, efforts are being made to remedy this. Coupled with rising capital expenditures and the integration of artificial intelligence, these measures are expected to enhance the country's overall productivity.

Collectively, the increasing labor force participation and productivity gains bode well for India's long-term prospects.

This analysis supports the conclusion that India, and particularly equities within India, represent a compelling investment opportunity. We discussed this extensively in our December 2023 factsheet (link).

Lastly, answer to question no 3

Let us now consider an extreme scenario. We return to the conditions of 2008, but with an additional assumption: all the investible surplus you are expected to generate over the next fifteen years is available to invest in 2008. Moreover, we presume perfect market timing, ensuring that (a) we do not miss the best investing days, and (b) we possess sufficient fortune to invest all of this surplus during market corrections, while also maintaining the mental fortitude to remain undeterred by global crises. While highly implausible, for the purpose of exploring extremes, let us proceed with this scenario.

The analysis presented above demonstrates that this scenario, compared to an investment initiated at the peak of the cycle, yields a return differential of approximately 5.4 percentage points. As previously noted, over a 15-year period, this constitutes a substantial difference.

Comparatively, India presents a diverse array of investment philosophies that have historically generated alpha (returns above the benchmark) comparable to the differential noted above (over 5 percentage points) for extended periods. Even with poor timing and unfavorable market conditions, selecting the right investment strategy can compensate for these setbacks and potentially yield even greater returns.

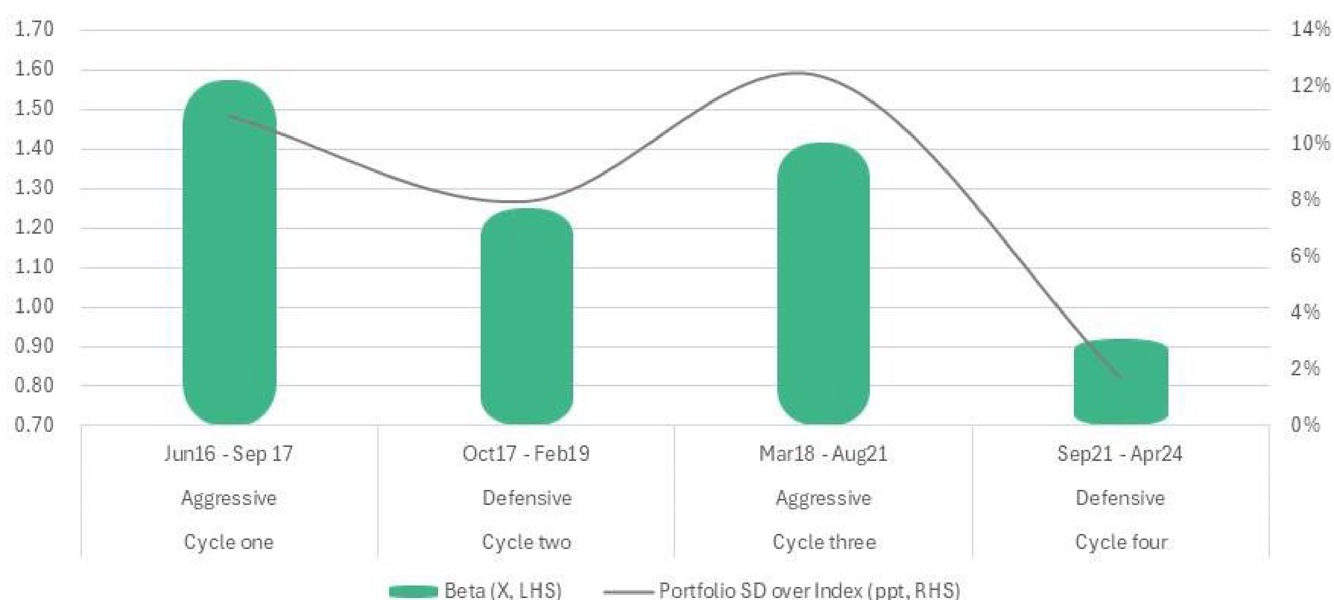
Considering probabilities, the likelihood of identifying a robust investment framework is substantially higher than the combined probability of (a) having the entire investible surplus for the next 15 years available today, (b) timing the market impeccably, and (c) possessing the resolve to invest aggressively during significant market downturns.

So, how are we approaching it?

If we adhere to the view that market timing does not substantially enhance value, the optimal strategy is to manage portfolio risk by adjusting its beta according to prevailing conditions. This approach, colloquially known as "getting greedy when the market is fearful, and shifting to capital protection when the market appears infallible," effectively balances risk and reward.

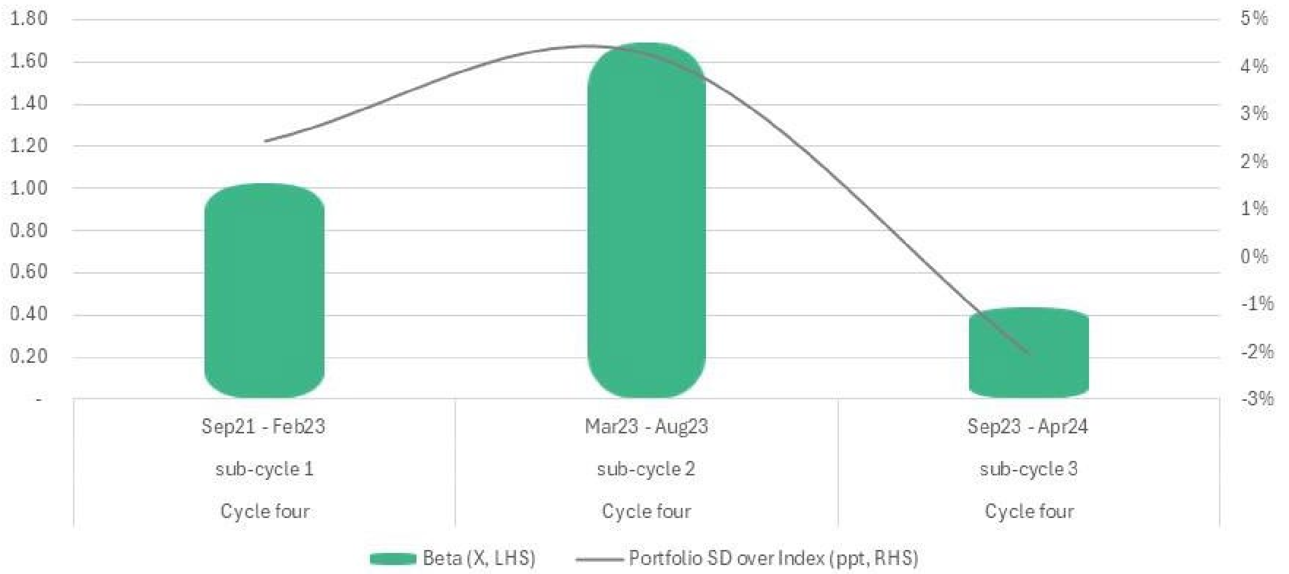
The chart below illustrates that when adopting an aggressive stance, (a) our portfolio beta is higher compared to periods when we were defensive, and (b) the portfolio standard deviation significantly exceeds that of the benchmark.

Exhibit 3: Portfolio beta and standard deviation compared to the benchmark



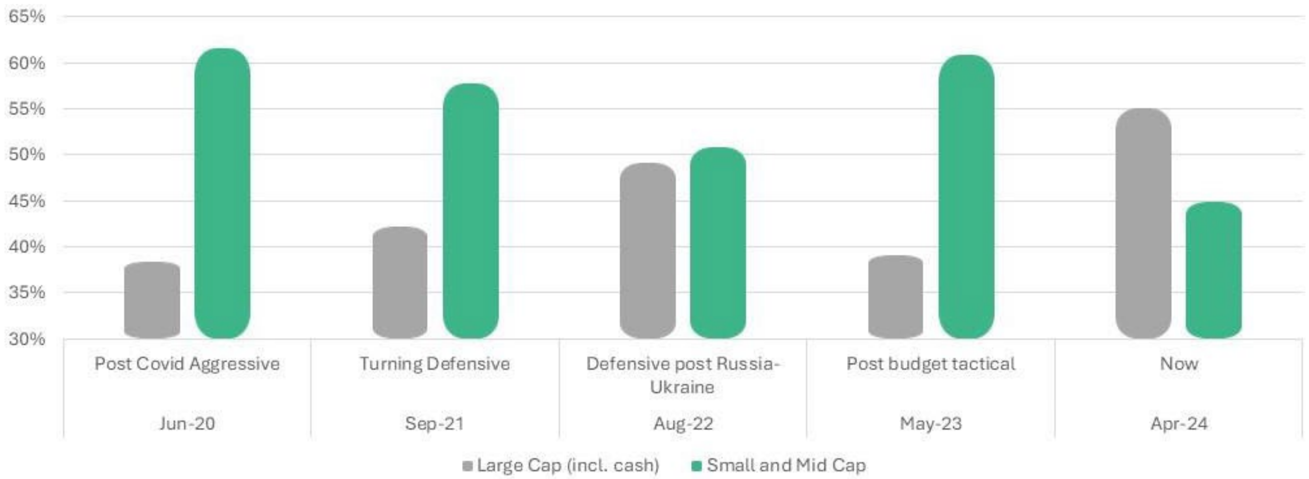
Focusing on cycle four, where we maintained a defensive stance, we still capitalized on presented sub-cycles. Notably, after the Russia-Ukraine conflict and during the run-up to March 2023, when investment in life insurance and debt products surged due to incentives in the newly announced central government budget, we increased the portfolio's risk by elevating its beta and investing in small-cap businesses. However, following the surge in small-cap businesses, we substantially reduced the portfolio's risk in anticipation of potential turbulence ahead.

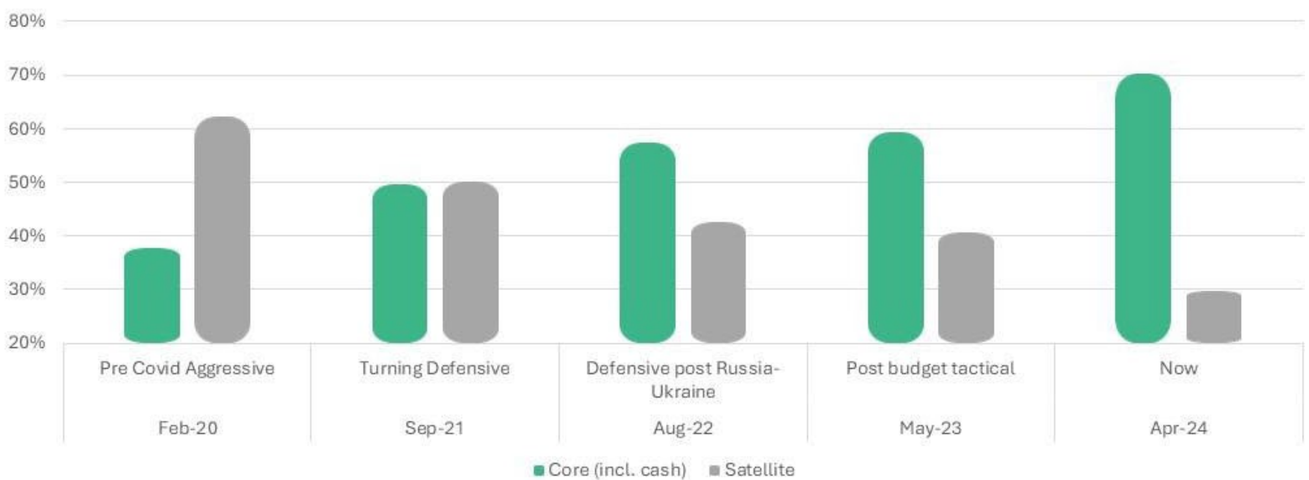
Exhibit 4: Sub-cycle adjustments



The overall impact of these adjustments is evident in the exhibits presented below.

Exhibit 5





Sectoral allocation

Sector	Allocation
Banking	29%
Automobile	10%
Insurance	9%
HealthCare	7%
Telecom	5%
Building Materials	4%
NBFC	4%
Info Tech	3%
Chemicals	3%
Industrials	3%
FMCG	3%
Materials	2%
Media	2%
Retail	2%
Textiles	1%
Cash and equivalents	13%

Core vs. Satellite / Market-cap

Category	Allocation
Core (incl. cash)	70%
Satellite	30%
Cyclicals	*9%*
Turnaround	*9%*
Value	*12%*

Market-cap	Allocation
Large Cap and cash	55%
Mid Cap	20%
Small Cap	25%

Returns

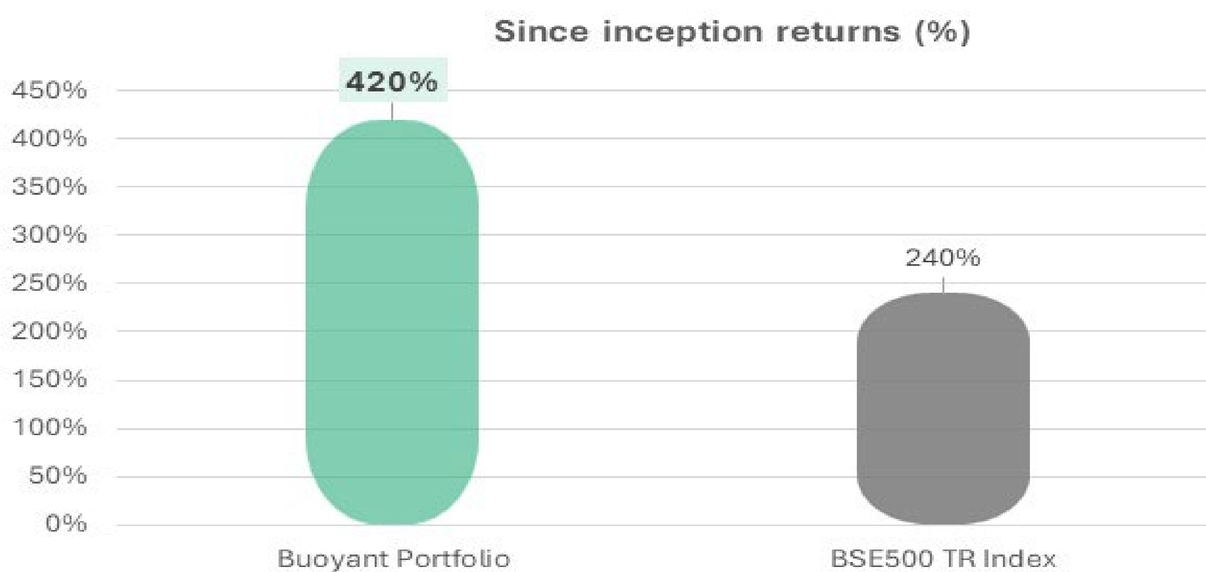
For the month of April 2024, the Buoyant portfolio achieved a 6.4% return compared to the BSE 500 Total Returns Index of 3.4%. In compliance with SEBI regulations, Buoyant returns are calculated post fees and expenses. The performance chart is presented below.

External publications rate the Buoyant portfolio as a top quartile fund across longer periods (3 years, 5 years and 7 years). However, our primary objective is not to generate the highest possible returns. We rather seek to generate superior risk-adjusted returns across market cycles. One part of that product promise is risk-adjusted returns, and as is evident from the table below, as the markets have risen, we have reduced the risk in the portfolio (to 0.5X as measured by beta). The second part of the product promise is across market cycles. The Buoyant portfolio outperformed when the markets have risen sharply post-COVID. We intend to keep this up should the markets correct in the ensuing cycle.

Relative performance

30-Apr-24	1 month	6 months	1 year	2 years	3 years	5 years	Since Inception
CAGR (%)							
Buoyant Portfolio	**6.4%**	**17.1%**	**41.8%**	**26.4%**	**31.2%**	**25.0%**	**23.2%**
BSE-500 TR Index	3.4%	25.0%	38.6%	20.2%	20.5%	18.2%	16.7%
Absolute (%)							
Buoyant Portfolio				60%	126%	206%	420%
BSE-500 TR Index				44%	75%	131%	240%

Source: Bloomberg for Indices. Buoyant portfolio returns are post-fees and expenses. Returns are for Buoyant Opportunities Scheme - Discretionary portfolio. More than one year returns are annualized.



Risk metrics

	1-yr	2-yr	3-yr
Sharpe ratio (X)	3.4	1.3	1.6
Information ratio (X)	0.2	0.7	1.0
Standard deviation (%)	10%	15%	15%
Beta (X)	0.5	0.9	0.9
Sortino (X)	12.3	2.7	3.2

Blogs and Media

Our recent blogs and media appearances

Blogs

- Ten-billion-dollar lesson – The Economic Times 22 February 2024
- Habit loop – Moneycontrol 15 January 2024
- Small cap cycles – Moneycontrol 15 November 2023
- Privileging the hypothesis – Moneycontrol 5 September 2023
- Credit cards – Moneycontrol 18 July 2023
- Junk bonds and market cycles – The Economic Times 26 Jun 2023
- Network effects: a double-edged sword – Moneycontrol 12 Jun 2023

Media Appearances

- Jigar Mistry (CNBC TV18) 24 April 2024
- Jigar Mistry (ET Now) 21 April 2024
- Jigar Mistry (CNBC TV18) 13 March 2024
- Jigar Mistry (CNBC TV18) 2 March 2024
- Jigar Mistry (ET Now) 1 March 2024
- Jigar Mistry (CNBC TV18) 29 February 2024
- Jigar Mistry (ET Now) 28 February 2024
- Jigar Mistry (CNBC TV18) 11 December 2023
- Jigar Mistry (CNBC TV18) 16 November 2023
- Jigar Mistry (CNBC TV18) 8 November 2023
- Jigar Mistry (ET Now) 9 October 2023
- Jigar Mistry (CNBC TV18) 29 September 2023
- Viral Berawala (ET Now) 12 September 2023
- Jigar Mistry (CNBC TV18) 1 September 2023

Buoyant Capital Pvt Ltd

3501 Kohinoor Square, N C Kelkar Marg
Dadar (West), Mumbai 400028. INDIA
buoyantcap.com

Compliance/Grievances:

Mayuri Jangid
Email: compliance@buoyantcap.com
Phone: +91-22-6931-9912

Queries/Customer Care:

Gayatri Kadam
Email: care@buoyantcap.com
Phone: +91-22-6931-9963

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3501 / 3704 Kohinoor Square
Dadar West, Mumbai

Tel: +91 22 6931 9999

info@buoyantcap.com