Twitter Thread by Conservative Trader

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Managing long term portfolio

With very little efforts you can beat any mutual fund while being buy only long term investors,

First, why many mutual funds underperform the index on a long term average

1. they have to keep cash for redemptions, which gives little returns

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2. They have to pay overheads like salaries, office expenses, sales and marketing expenses which is around 5-6% of the AUM they handle

smaller the MF, higher will be such % but bigger MFs have different problem

3. When market falls rapidly, like march 2020, they see huge redemptions as everyone wants to be out before others

So literally they are forced to sell their long term holdings because of short term market shake outs

similarly when market makes new top, they have huge inflows and they are forced to buy for long term at the top, if market corrects from there, average returns for older investors also go down

4. High attrition, in spite of best of the salaries, their star fund managers leave the ship (example Kenith of IDFC) , so when a MF is at peak and returns are getting noticed, its 5 star rated, manager leaves with his team and we see years of under-performance

5. Mal-practices, India is a place where we have chalta hai attitude about crime and breaking of law

so many fund managers indulge into things like front running, stakes are so so high, its tempting without stringent punishment

SEBI trying to curb that, but it has little punitive powers against individuals, unlike USA

So any mutual fund beating the index in India inspite of all the above is a miracle

If we imbibe some of the best practices of mutual funds then we can beat them as we dont have any of the above problems

1. MFs are well diversified into 30-50 stocks, on an average holding 1-2% of fund value in a single stock,

this is very important for retail as we dont have expertise or cutting edge info or insider info to bet heavy on one stock and in india any stock can go to zero (e.g. ADAG)

2. stick to theme, early on decide, if u want to follow momentum or value or coffee can and stick to that

every kind will have its own share of pain, and we cant be jumping the ship,

for example i am greatly influenced by Saurabh Mukherjea's books and style of investment and i follow that so never bought any adani or momentum stock, so at the onset i signed up for lower less risky

returns,

3. In the word of finance, no matter how busy u are, u cant trust anyone blindly, for that matter in life, u cant trust anyone blindly

so try to be DIY investor, it just requires 1-2 years , 4-5 hrs each weekend to be reasonably good at stock picking,

here advisor's inventive is only to make u trade more, he makes more money if u buy something new, u make money only if u trade less, so its screwed relationship from day one,

Without fucking u, he will not have his baby, so he has to keep trying that

Even fee based advisors, if they advice to buy and hold same 15 stocks for 15 years, why would u pay him every year, so he has to look busy, keep suggesting new ideas to look useful and intelligent

Once u have DIY and style of investing ready, keep a time period of more than 1 year for most of your holdings, remember its not trading,

its easy to get confused between in trading, investing and gambling,

unless we write down rules for each, its all bound to get messed up

so minimum holding perid of 1 yr to get favourable tax treatment and discipline , try for average holding period of 5 yrs, as large part of the money is made by holding and sitting tight

About universe of stocks, either u can start scanning from what top mutual funds are holding, its available on money control , or u can see portfolio of people like RJ , dolly khanna

remember that will be just your shortlist, these are the stocks which have passed sanity test

Half of the picks will still not work and some might go to zero, u dont need to be an expert picker to make money,

even if 20% of your picks become multi-bagger in next 10 years., u will beat best mutual fund

keep minimum 20 stocks and max 30 stocks in your portfolio, so that u are able to track them and also there is no concentration risk

Operationally keep long term PF in separate demat, dont pledge it, dont leverage it, as its long term, for your retirement may be,

may be for your children's education,

this might lower your returns a bit, but greatest threat to your networth is YOU,

if its in separate demat and you are not logging in everyday, u will be less tempted to churn it, try it once

and u will thank me for a lifetime for inducing this behavioural change (no churn in long term PF)

Also, I believe, from risk point of view, you should never plege family silver, money u cant afford to lose

who knows what the new never heard of scam will

entail for our FNO positions, so i like to keep my long term PF with bank brokers as they have more at stake in terms of reputation and they are more stringent in their risk management practices

thats it folks, its that easy,

let me know if you liked my thoughts, i will do a spaces on it to clear any doubts if u have

I want to thank @Traderknight007 who encourages me to write more and i wish i am able to write threads like him

but "I try"