Twitter Thread by Parakh

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Absolutely amazing presentation by @Gautam__Baid in the @soicfinance's conversation with super investors series.

@Gautam__Baid said that the key attribute of great investors is their Focus on Process, with this in mind,

Let's deep dive into his Investing Process ■■■

1. PF construction, Tracking and Rebalancing

- PF comprises of 20-30 stocks held for 3+ years, sector & market cap agnostic

- Weightage of 3-5% per stock, exceptional opportunities get 10%

- Ranks PF cos based on valuations, earnings perf & expected stock returns to rebalance

2. Investment process flow

- Keeps an active watchlist of 10-15 potential opportunities

3. Idea Generation (very practical sources)

"He who turns over the most rocks - wins"

- Stock mkt takes time to adjust to higher intrinsic value so even if you buy after a big breakout earnings there is a chance to make good returns

contd.

contd.

- Usually post IPO new high coincides with some imp biz development in the co.

- For microcaps, Credit Rating reports and IR section on website are good info sources

- DRHPs and QIP docs used for industry data

- Fund manager's top holdings (https://t.co/aOzskNgCIv)

contd.

Price Action:

- Bull Market ~ look at stocks hitting multi-year high
- Bear Market ~ look at 3/6m high
- Sideways market ~ look at stocks breaking out to new 52w high

4. Focus on Process

- Process should be something that is repeatable & scalable. Outcomes may not always be positive but by focusing on process we can maximize our chances of good outcomes.

5. Approach for Idea Generation

Track:

- Key company metrics
-Industry developments (supply consolidation - Real estate, regulatory changes - Ethanol blending, trends - music streaming)
- Investment activities (PE/MF, etc)
- Corporate Events (Demerger, Promoter change)

6. Portfolio Risk Approach

"All I want to know is where I'm going to die so I'll never go there"

7. Things to Avoid as an Investor

- Value traps are like melting ice cubes, P/E looks attractively low but focus on earnings trajectory to avoid value traps

- Biggest mistake is investing in cos with bad accounting/CG

8. Comprehensive Corporate Governance Checklist

It is big list but can help in avoiding big blow ups.

- View of current & ex employees can be checked out at https://t.co/r7ZAdAXXVi

- Evaluation of volatility in depreciation policies, expense w/off from reserves instead of P&L

9. Sales & Earnings power drive returns over long term

- Nealy 90% of the returns in the Long term is due to sales and profit as compared to around 42% in the short term

10. Most Durable Edge

There are 3 sources of edge for an individual investor:
- Information edge ~ gone with the rise of internet
- Business analysis edge ~ reducing with smart investors entering the markets
- Behavior & Temperament edge ~ the most durable edge for an investor

11. Time Arbitrage play

- Ride capex plays through a full industry cycle (downturn to upturn)

How to choose cos during the down cycle?

- Check the Balance Sheer esp. Cashflow (op) and levels of debt
- Evaluate whether they have the strength to withhold another 2y of downcycle

12. Successful investing is all about Pattern Recognition

- Stock market does not re-rate the business immediately. They re-rate them when earnings growth is clearly visible.

13. Key Catalysts for Rerating

- receipt of large order/landmark contract (eg. Navine Flourine)
- future plans in presentation (eg. Natural Capsules)
- sudden increase in MV of co's bonds, bonds are more sensitive to stocks (eg. Rain industries in 2017)

14. Art of Valuation (DCF mindset)

- To be a successful investor, you don't need to do a precise DCF calculation.
You just need to have a DCF mindset, focusing on drivers of terminal value (which drives multiple rerating)

- Be a business analyst, not a securities analyst

15. Intrinsic value

- Intrinsic value is the sum of Cash flows (CFs) discounted for the time value of money & the uncertainty of receiving those CFs

- Predictability of CFs is an important factor, less predictable CFs need to be discounted at a higher rate

16. Risk perception determines discount rate which drives Valuations

- Predictability of LT growth matters more to the market than absolute rate of ST growth
(stock promising earnings growth for next 2y but no clarity thereafter which get low valuations)

- Longevity of growth

17. Longevity of growth

- Market provides disproportionate rewards to cos that can promise years of sustainable earnings.
Thus, you see cos with 12-15% predictable earnings growth for next 10-15y getting 40-50 times P/E

18. Optimal number of shares

19. Playing Demergers

There are 2 kinds of demerger plays:

Opportunities created by forced selling.

- Mcap related ~ since large institutions can't hold micro or small caps there is forced selling creating opportunity (eg. Aarti Surfactants)

contd.

- Sector related ~ since sectoral funds can't hold demerged co of other sector, there is forced selling (eg. Jubilant Ingrevia can't be held by Pharma funds who had Jubilant Pharmova)

- In case of cyclical demerged cos you have to use Techno-Funda to exit on time.

20. All Intelligent Investing is Value Investing

End of thread.

Found a recording of Twitter spaces of similar presentation: https://t.co/4NcmxKKNX9