Twitter Thread by Prabhakar Kudva



Prabhakar Kudva
@prabhakarkudva

Markets are all about patterns and tendencies that have an edge. Here are a few I have observed and learned over the years.

A Thread.

Identify the Sector(s) of this cycle. Typically mid caps which are enjoying an earnings tailwind due to the external environment and you have a 3 year visibility into a 25% or higher eps growth. Will seem expensive throughout the cycle but will make big money.

Breakout post a genuine earnings surprise. Popularly called PEAD. Structural pattern. Works like a charm at all points of any cycle.

Serious debt reduction. Drives as much shareholder value as a high growth stock.

52 week highs across stocks in a given sector. Something is happening. Pay attention.

All time highs in ANY stock.

Spin offs and demergers. There is one whole book on this. Huge edge works more often than not.

New IPOs breaking out to all time highs a month or so after the listing.

Low capacity utilisation, negative profits and a turnaround in the sector - typically buy on first signs of turnaround.

Media pessimism about a sector reaching highs as per news reports in papers/mags while the sector in forming consolidating bottom or breaking out - huge winners here.

52 week low + insider buying + but no sector issues ie sector not likely to die or go into oblivion.

Large opportunity good execution and good management will always be overvalued, ignore pe and add them during corrections without waiting for pe to correct to "my value levels" which will never come.

3 years 50% test, Can this business trade 50% lower after 3 years? Can be done for predictable businesses only. This one by @BMTheEquityDesk

Can the profits (5 years out) in the future be equal to the current market cap? This was Ramdeo Agarwal if I remember it right.

Change in management (especially for financials but generally for others).

Playing the liquidity premium and discount in small caps in bull and bear markets. In bear markets they are oversold and and in bull over bought - hence small caps make for very good market cycle play

Fall after a sharp deterioration in margin due to temp factors, which is likely to bounce back.

This is the big one and may happen due one of the reasons above. Delta in RoCE leads to multi baggers - esp if delta is from single digits to two digits.

All engines firing. Improved margins faster cash flows and better asset turns which happen when cwip assets start sweating by @varadhar1

https://t.co/VPnK3xS2nA

> If I may add to this: Promoter pledge getting revoked can act as a tailwind.
>
> — Balaji Vaidyanath \u26a1\ufe0f (@nbalajiv) June 26, 2021

https://t.co/DvOYLg95pt

> Option values in new business areas. Almost always comes with superior mgmt.
>
> — Chandrasekhar (@chondhe) June 26, 2021

https://t.co/8KVNjz9piP

> Policy disruptions such as the APM for fuel changed the OMC valuations .. direct benefit route in fertilizer resulted in fertiliser stock revaluation.. latest ethanol blending for sugar companies worked like a charm!
>
> — vinita k bahri (@vinitakbahri) June 26, 2021