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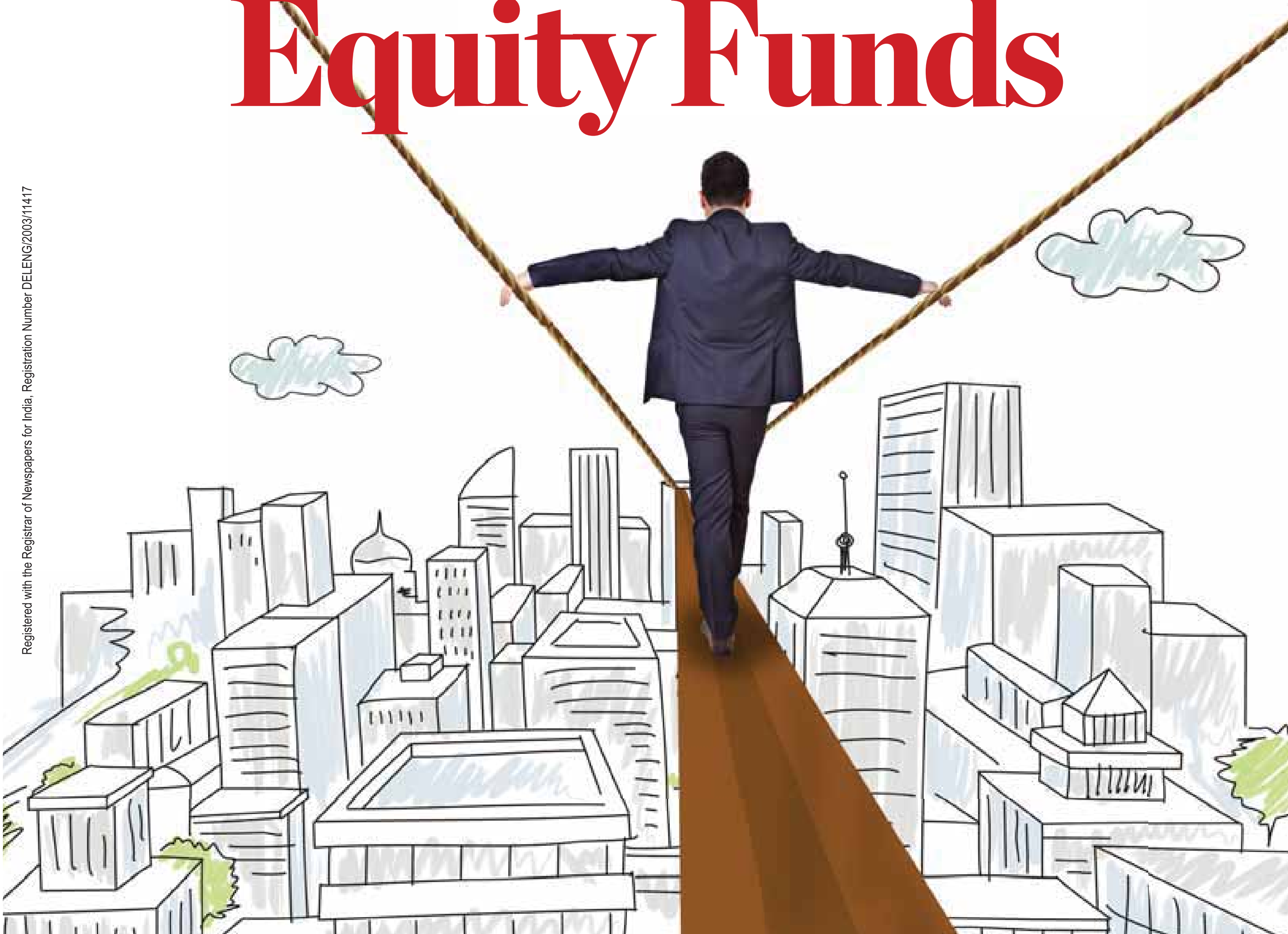
The Least Risky Equity Funds



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The importance of being Parag Parikh

As many mutual fund investors must have heard, the founder and CEO of PPFAS, Parag Parikh, passed away tragically in a car accident in the US. A true follower of the creed of value investing, Mr Parikh was in the US to attend the annual shareholders' meet of Warren Buffett's Berkshire Hathaway. This was the first time he was making this investors' pilgrimage, and sadly, it was his last.

As the news of his demise spread in the investment community, there was a wave of sorrow and genuine regret at his having met an untimely end. But to many who were not familiar with his career, there was also a sense of curiosity at the scale of reaction that his passing seemed to evoke. After all, on the scale that things are usually measured in the mutual fund industry – assets under management – Parag Parikh's fund company is not a big one.

PPFAS has just one fund, and that fund has assets of a mere ₹572 crore as of March 31, 2015. For comparison, India's largest AMC, HDFC Mutual Fund, manages ₹1,51,754 crore. That's 263 times what PPFAS does. PPFAS' market share is a mere 0.05 per cent of the ₹10.8 lakh crore mutual fund industry. As influence and importance are measured, a market share of 0.05 per cent sounds ridiculous. And yet, I would say that the importance of Parag Parikh and his little boutique AMC are out of all proportion to the size of the assets the company manages.

The reason I say that is Parag Parikh's approach to investing encompassed the exact strategy that equity investors should have. He firmly believed that the way to make money in equity investments was to pick stocks with fundamental qualities, invest in them at reasonable valuations and then stick to this strategy for long years. Of course, there's no shortage of investment managers who say this.

However, unlike others, Parag Parikh and his business have actually walked this talk. PPFAS has launched only one fund which is run according to these principles. The AMC wants investors who have at least a five-year perspective. In the fund industry, the simplest way of collecting money is to launch a large number of supposedly specialised funds. It's easy to launch flavour-of-the-day funds which give salesmen diverse excuses to talk about a variety of products under the assumption that something will stick in the investors' fancy.

PPFAS has eschewed all this. It's one fund has a completely unrestrained mandate. Depending on the fund manager's decision, it can go to any capitalisation, sector or geography. The investor can take the purest approach to attention-free investing, just the way mutual funds are meant to be. I must note here that another unique fact about PPFAS is that the management teams' personal assets are deployed in the fund.

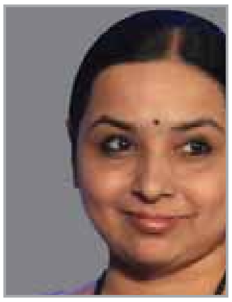
Although Parag has passed away, the AMC and the team he has set up is a professional outfit capable of carrying the vision forward. Even so, one can't but be disappointed at the turn of events. Parag Parikh had had a long and distinguished career as a value investor running a PMS based on the same principles.

With Sebi's new ₹50 crore capital requirement for AMCs, the regulatory environment in India is actually quite hostile to small innovative AMCs. Our system is set up for big AMCs, which are all replicas of each other for the most part. They serve at a scale, which is valuable. But so are innovation and setting an example. That's what Parag Parikh did so wonderfully.

May his soul rest in peace.

Dhirendra Kumar

EDITOR



AARATI KRISHNAN

DIRECT ADVICE

Quest for star investors in India

With the sad demise of Parag Parikh, India lost one of its renowned investors, who are a rare breed in the country

The tributes pouring in from investors across India after the tragic demise of renowned value investor and behavioural finance guru Parag Parikh bring to light a rather sad fact about the Indian market. For investors who are keen to succeed in the stock market, there are very few domestic role models to look up to.

Mr Parikh was one of them. If there is a palpable sense of loss in the investment community at his passing away, it is due to the fact that he had something unique to offer to people who are passionate about investing – an independent and crystal-clear point of view, expressed in a forthright manner.

Indian perspective

Mr Parikh seldom figured among the market experts who star in television debates expounding on the economy or markets, putting out ever-changing Sensex targets or recommending long lists of multi-bagger stocks. Yet the investment nuggets that he had to share through his interviews and his two books (Value Investing and Behavioural Finance and Stocks to Riches: Insights on Investor Behaviour) were of great value to aspiring investors.

Not only did they offer a uniquely Indian context to the investment strategies practised by Lynch, Graham, Buffet and others, they also simplified equity investing for laymen. Mr Parikh shunned pretence and formality and liked to call a spade a spade.

Some of his one-liners over the years are hard to forget.

"If you buy fancy stocks at fancy prices, you will soon end with a fancy loss when the fancy ends."

"The market is made up of sentimental fools and you always get an opportunity to buy good-quality companies."

"Watching (stock) prices going up and down is just entertainment. Why should I derive entertainment from other people's money?"

"If someone asks me what I think of a stock, I will say, 'Ask Bejan Daruwalla. I cannot talk about more than the 25 stocks that I own'."

This kind of plain-speaking is quite unusual in the Indian investment business, where the broking community puts out jargon-laden reports to justify recommenda-

Mr Parikh once said, "Watching (stock) prices going up and down is just entertainment. Why should I derive entertainment from other people's money?"

tions and companies use obscure management lingo to explain their financials to shareholders.

A stock broker and portfolio manager for high net worth investors until 2013, Mr Parikh's investment strategies became accessible to retail investors after he decided to go retail by launching the Parag Parikh Financial Advisory Services Mutual Fund in 2013. He invested his personal money in the fund house and shuttered his broking business to avoid conflicts of interest with the mutual fund.

It is indeed a reflection on the dearth of original investment thinkers in India that Mr Parikh travelled all the way to Omaha, Nebraska, in order to listen to the investment wisdom from Warren Buffet and Charlie Munger at Berkshire Hathaway's annual shareholder meeting.

No role models

Though the mutual fund industry in India is five decades old (starting from UTI's debut in 1964) and the Bombay Stock Exchange is of three-and-a-half-decade vintage, we are yet to see an Indian portfolio manager who rivals Peter Lynch, Bill Gross or Warren Buffet in popularity.

This is certainly not because Indian money managers are less talented or less smart than their foreign counterparts. There seem to be other reasons for this.

For one, while India has its own set of private investors who have generated wealth through stocks, their investment philosophies and track records are largely a closed book. Take Rakesh Jhunjhunwala, who occupies a cult status within the investment community. His buys or sells are dutifully tracked by all kinds of investors, big and small.

But what is the shape of his overall portfolio? Has it beaten the market over the last ten years? No one knows. Since Jhunjhunwala is a private investor, neither his complete portfolio nor his investment performance is in the public domain. A large number of retail investors still try to replicate his returns by blindly mimicking his buys that appear in stock exchange disclosures.

But whether they manage to earn the investment returns that he does is very much open to doubt because while we do know what stocks Jhunjhunwala bought, we know very little about why he bought them or when he would book profits on them.

Where a public record of returns is available, Indian investment firms aren't really good at articulating their strategies or

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philosophies to their shareholders. Entrepreneur Ajay Piramal, through his flagship firm Piramal Enterprises, has built up a reputation for astutely timed investments in businesses and has often been compared to Buffet. But while we do know that Piramal has minted money on buys such as Vodafone India and Shriram Transport, his investment strategy cannot be emulated by retail investors because they involve strategic equity stakes in private firms. Nor does Piramal Enterprises communicate the investment rationale behind each of its buys, sells and investment mistakes, à la Berkshire, to its shareholders.

Such communication is exactly what helps Warren Buffet attract a cult following among investors across the world. The very first page of Berkshire Hathaway's annual letter to shareholders tells you how Buffet has fared against the market since inception. For instance, his 2015 missive tells us that Berkshire Hathaway shares delivered a CAGR of 21.6 per cent between 1965 and 2014, against the 9.9 per cent return by the S&P 500 in the same period.

The Berkshire letter, printed and reprinted throughout the world is also down to earth, shorn of Street jargon and so brutally frank that it allows small investors to learn their own lessons from Buffet's successes and mistakes.

No dearth of talent

All this does not mean that India lacks talented investors or fund managers who can serve as role models for aspiring investors.

Indian stock market history is relatively short and thus there is no equity fund that has a fifty year history like Berkshire. Yet there are many mutual fund houses and schemes with a twenty-year history. Some of them have truly impressive records of beating markets.

Among large-cap funds, HDFC Top 200, Magnum Equity, DSP Blackrock Top 100, Franklin India Bluechip, ICICI Pru Dynamic sport ten year returns of 18–19 per cent. In the large- and mid-cap category, ICICI Pru Dynamic, HDFC Equity, Magnum Multiplier and Franklin Prima Plus sport 21 per cent plus returns for ten years.

Yet there is so much focus on monthly, quarterly and annual equity fund returns in India that investors often miss the wood for the trees. As investors or analysts we tend to be very quick to criticise a manager who has slipped in the quarterly or six monthly rankings. Yet very rarely is due credit given to a manager who has steered a fund's outperformance over a ten- or twenty-year time span.

Fund houses, on their part, seem to fight shy of giving credit to their really talented managers and like to attribute all their successes to 'investment processes' and 'team efforts' rather than the manager's skills at stock selection. They seem to be worried that if they allow talented managers to grow into 'stars', they will be quickly poached by rivals.

Fund managers have to shoulder some blame for such misgivings too, for they seldom seem to stick with one fund house through their career to build a long-term track record. As soon as a bull market arrives and the returns of their portfolios begin to look good, a good number of them are eager to jump jobs.

These trends are self-defeating not just for Indian investors but for the asset management industry too. The untimely passing of Parag Parikh should be a reminder that for the equity cult in India to truly take off, we need more celebrated money managers whom investors can look up to. ■