

FAITH & *PATIENCE*



January 8, 2021

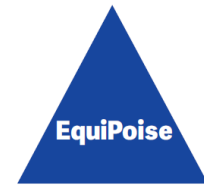
An unprecedented CY2020 finally came to a close and 2021 has begun with a new hope of a much better and brighter tomorrow. For the calendar year 2020, Nifty 50 index was up 14.9% over previous calendar year. Foreign investors' total buying for the calendar year stands at net USD23bn. India has seen ~\$8bn of net buying by foreign investors in equities in both months of November and December. This net purchase of USD23bn for the calendar year 2020 does not give the complete picture as foreign investors had pulled out close to ~USD 8.5 bn from Indian markets during March-April 2020 due to Covid outbreak. This net inflow of USD23bn is part of the reason why there was the sharp rise of 15.8% (Bse Sensex) in the markets despite Covid pandemic.

Beginning 2021, we are witnessing vaccinations across the globe and also a drop in Covid infections/mortality. This coupled with liquidity surge/economic packages has resulted in fear and despair turn into greed and exuberance as far as the markets are concerned. What we get to hear, from experts, gives a déjà vu feeling. We are hearing these lines a lot these days - "this time it is different" or "valuations (PE) don't matter anymore as yields have collapsed" or "PE appears high in the absence of earnings" or "earnings will soon catch up and valuations will look attractive" etc etc.

Well let me add my two bits here. Whenever the narrative moves to "this time it is different", when anybody and everybody becomes a master stock-picker and starts giving stock ideas, when novices start generating higher returns than professionals, when millions of retail investors redeem from equity funds and open trading accounts/apps, when one auto maker's market cap exceeds that of top nine auto makers' combined market cap and when Robinhood and O-dha replace Candy Crush, Minesweeper on mobile phones...is it a sign of irrationality into the exuberance? Well, it does remind me of the old saying "when the cigarette vendor outside stock exchange starts giving you stock ideas it signifies peak of the market is round the corner."

Since "We are all Keynesians now", I am reminded of a famous quote by Lord John Maynard Keynes - "the markets can remain irrational longer than you can remain solvent." Guess the truth lies somewhere in between the irrational exuberance (definitely in multiple pockets and led by unprecedented liquidity surge) and the fact that this exuberance may well end up testing the patience of some of the most astute investors. Valuations matter. Quality matters. Always did.

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Here I would like to quote Mr. Warren Buffett, “In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.”

Mr. Buffett further adds, “...investors behave in very human ways, which is they get very excited during bull markets. And they look in the rear-view mirror and they see a lot of money having been made in the last few years. They plow in and they just push and push up the prices. And when they look in the rear-view mirror and see no money having been made, they just say this is a lousy place to be so they don’t care what’s going on in the underlying business. It’s astounding, but that makes for huge opportunity. If you can stay objective throughout the waves, that you can detach yourself temperamentally from the crowd, you get very rich. Things can go on for a long time that don’t make sense but they do come to an end.”

Wish you and your loved ones “Happy, Healthy and Prosperous 2021.”

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Best,

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