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Keep Expectations Reasonable

A Chartered Accountant with over 30 years of experience in the areas of Finance, Investment Management, Mutual Funds and Insurance Industry, AK Sridhar is the Head of investment Management, ALM functions of IndiaFirst Life Insurance. Prior to this he was the Chief Executive Officer of UTI International (Singapore) Ltd, an investment management Company in Singapore, after being the Executive Director and Chief Investment Officer (CIO) of UTI Asset Management Company Ltd, managing an AUM of Rs. 48000 crs (USD 10 Billions). Sridhar is a member of the NSE – IISL Index Policy Committee and Capital Market Committee of the Indian Merchant Chambers (IMC). He was also a Director on the Board of 'Association of Mutual Funds in India (AMFI)' for more than 3 years. In conversation with Dominic Rebello, this Market Wizard reveals what it takes to succeed as an investor. He believes 'Great opportunities exists for Indian equity over the next three to ten years'

IndiaFirst Life Insurance is a joint venture of Bank of Baroda (44%), Andhra Bank (30%) and UK's leading risk and investment firm Legal & General (26%). The company launched operations in 2009, and has the distinction of insuring over 1, 00, 00,000 lives within 6 years of launch. The company has an AUM of over INR 8,300 cores.

At what point had you given a thought to making a career in the stock/ financial markets?

In 1988 I realized I was getting bored with just counting, recording (accounting) and making MIS on the money earned by the Corporate entity that I was working with. A thought occurred that it would be more exciting to anticipate how much a corporate would earn rather than doing a historical accounting of what the Company had already earned. So I moved out of the Corporate Finance world, and moved to Mumbai, to the world of managing money in the stock market. In those days UTI was one of the few institutional entities that was managing money in the stock market. I joined the investment division of UTI – which was managing the first ever Mutual Fund scheme in India - Master Share. The rest, as they say, is history.

How do you pick your investments? Do you use technical analysis, or do you employ fundamental data?

I am a strong believer of 'fundamental analysis' – it pays in the long run - tons & tons! I believe in taking a macroeconomic approach for asset allocation and bottoms up approach for stock picking. Keeping one's eyes and ears open and listening to signals amongst the cacophony of market noise is the best way to pick sectors & stocks.

Our methodology comprises of keeping a close watch on macroeconomic factors governing the growth of a company and keeps an eye over the management of the company. A good economy may not be always good for every sector / company and a bad growth period may not always be a bad time for every sector or stock. More than the ability of the promoters & the management, the 'intent' of rewarding the minority shareholder is more important. Great businesses need not necessarily deliver good returns to the investors / minority shareholders. So the quality and good practices of the management is very important. We meet the management, look at the past track record of the promoters, crunch the numbers look at the valuations and then decide to buy or sell.

Investing will give consistent, stable and predictable returns. Trading is for people with short memory and expecting quick money and investing is for the 'brave hearts' and 'value creators'. Market valuations decide whether I will be on the 'long side' or the 'short side'! Growth and liquidity drives valuations and 'valuations' help us decide on going long or short.

Willingness and the courage to think differently from others – if needed. Be it at extreme peak or in deep troughs – the 'mass market' was always 'late' and has always gone 'wrong'. So, our ability to stand out, courage to remain alone, not engulfed by crowd behaviour and have patience to wait and watch – are the few things that differentiates us from the rest.

Our Analytical ability to dissect market information and weed out unwanted market noise.

Never forget the basics and the first few chapters of your text book on investment analysis and investing.

A fair degree – I should say! It is not just the 'gut' feeling – but 'a common sense approach' topped up with information, discussion and valuations.

Yes. Based on historical behaviour of the markets and the market participants – both India and Globally.

When you put money on a trade and it goes against you, how do you decide when you're wrong? What do you do next?

I never hesitate to accept the wrong decision / out come and to walk out booking losses. At any time, valuation and relative valuation is the key. I try to revisit every stock at every interval as if I am investing on that day at that price and valuation.

No not at all. Nothing came to me as a surprise. May be, on a few occasions, I was too early in predicting the market and the prediction became real a little later.

Frequent churn and intraday trading makes me wary.

Of the tens of thousands of trades/investments that you have done, which was your best trade/investment?

Many in Auto Sector, Pharma, banking and IT sectors.

Consumption in the Auto Sector; Price competitiveness in Pharma; Economic growth in Banking and knowledge leveraging in the IT Sector.

Keep the expectations reasonable. Don't get swayed away by the mob psychology. Never forget the basis of financial discipline. Don't do anything which you do not understand. Risk & reward is related. But also remember that too much – will not necessarily end up in too much returns.

Do you have a scenario about how the current market will end? Where do you see the Indian markets five years down the road?

The Markets are expected to see a downward correction as Corporate growth is not in tune with the present values at which they are trading. Either the Corporate growth has to dramatically improve soon or the market should take a correction. However, over the next 3 to 4 quarters the growth momentum will improve. Over a mid to long term the equity markets will give a return of one and half times of what the debt market will give and at least 2 to 3 times of what the GDP growth will be.

Valuations are little stretched. I will closely watch the Crude & Commodity prices. Watch the tax collections and trade balance. There is money to be made in the debt market in the next two to three quarters and then equity will open up. Great opportunity exists for Indian equity over the next three to ten years.