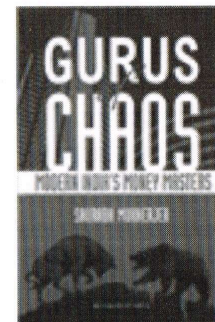


Gurus of Chaos Modern India's Money Masters

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Author's Profile

Saurabh Mukherjea is CEO of the Institutional Equities business at Ambit. One of the top three analysts in India according to Asiamoney 2013, Saurabh has spent most of the past decade making sense of the chaos that surrounds the Indian stock market. A London School of Economics alumnus and CFA charter holder, Saurabh lives in Mumbai with his wife and two children.

Basic Questions in the Investors Mind

How do I invest in the stock market?

Which companies should I Invest in?

When do I buy shares? When do I sell shares?

How do I take decisions in rising and falling markets?

Review of the Book

As in life, so in the stock market there are no shortcuts to success. It takes years of experience and a unique bent of mind to be able to consistently profit from the stock market. Saurabh Mukherjee ranked among India's top analysts today speaks to well-known investors who have over the past two decades mastered the art of profitable long term investing. He traces their journey from being amateur investors to professional managers handling vast sums of money. He looks into their minds to know the unique philosophies that power their investment strategies. Saurabh Mukherjea uses his knowledge of the markets to write an engaging and inspiring guide to investing in India. The book is based on in-depth research using rigorous analytical and forensic accounting techniques, which has now become the guiding principle. Also author highlights how easy it is to overlook glaring faults in company's performance and how these can be easily spotted using basic number crunching tools. This book seeks to shed light on how the Gurus of chaos in Indian stock market build their portfolios and nurture their successful careers in a turbulent market.

The investment opportunities in India are so obvious that almost everyone who reads a newspaper is aware of them. Yet majority of Indian companies seem to struggle to turn these opportunities into double digit returns for their shareholders. It is a fact that over the 20 years, over 80% of listed Indian companies have failed to give returns better than the rate of inflation. Majority of companies have failed to generate even double digit shareholder returns, the remaining minority have given healthy returns better than or equal to GDP growth rate.

In the first chapter author talks about accounting manoeuvres followed in companies in utilities, infrastructure and real estate. Many fund managers used to buy stock in such companies even they understood window dressed companies accounts. However a small minority of investors decided to steer clear of these sectors. The levelheadedness practiced over multiple decades in an emerging market characterized by misleading accounts, multifaceted corruption and low liquid (India is least liquid of world's fifteen largest stock markets) is the province of few individuals. This book reveals their

psyche, their careers and their evolution as successful long term investors. The author highlights a fact that making money in stock market has very little to-do with greed or with wanting to be super rich. Middle class character traits such as strong work ethic, humility, curiosity will be of immense use. The book focuses on how some of the most successful long-term investors in India have trained their minds relentlessly over the last 20 years so as to be able to consistently outperform the index. The first chapter contains interview with Sanjay Bhattacharya who was instrumental in building the powerhouse that HDFC Asset Management is today. His investment philosophy is greatly influenced by Ben Graham's emphasis on margin of safety. He believes in Growth at reasonable price (GARP) approach works in India in most situations. It is also clear that no one approach works in India to a greater extent than in most markets. Value investing led him to Infosys stock in early 1990s.

Chapter two deals on relentless research. Peter Lynch writes, what distinguishes investment winners is the willingness to dig deeper, search more widely and keep an open mind to all ideas. The first thing a fundamentally oriented long term investor asks is, does the company have a sustainable competitive advantages which gives it an edge over its rivals? It can come from two sources-distinctive capabilities or strategic assets. The author gives Financial Analysis to assess competitive advantage. A company with such advantages should have stable or rising operating margins over a ten year period one should concentrate on quality of financial statements (Cash conversion ratio, Loans and advances etc.), promoter's competence and integrity. The chapter contains interview with Mr. Alroy Lobo, chief strategist and Global Head of equities at Kotak Mahindra Asset Management Company. His investment philosophy (Valuation of stocks, independence of research and thought process, selling philosophy etc.) is given.

Chapter Three deals with simple rules for successful investing. General public think that stock market is a casino, those with inside information have an edge. This is unfortunate because not only does this deter millions of individuals from investing their savings in stocks, it also draws young professionals to the stock market for all wrong reasons i.e. desire to get rich quick. Successful long term investors use other techniques to make money. They use simple but powerful set of rules to make money in the stock market. The author gives rules for buying-

Rule-1 only buy a stock if you understand the business model.

Rule-2 only invest in companies which can generate cash flows and high return on Capital Employed (ROCE) for long periods of time.

Rule-3 Buy these companies when they are available at prices which build margin of safety.

This school of investing says that not only should you buy stocks when they are trading in the market below their intrinsic or fair value, you should also seek a heavy discount to that value. Value investors seem to interpret this as at least a 10% discount to fair value for high quality companies (like Maruti Suzuki) and as much as 50% discount for more speculative investments (Ex-Crompton Greaves). The chapter contains interview of Investment Guru Akash Prakash, Founder & CEO Amana Capital a Singapore based FII. Akash Prakash has spent six years as portfolio Manager for GIC-The Government of Singapore Investment Corporation where he managed US, Pan Asian and Indian investment Portfolios. It also contains interview with Mr. Sankran Naren who is the CIO of ICICI Prudential Mutual Fund. Mr. Naren educated at IIT (Chennai) and IIM (Kolkata), started investing money during his school days. He identified a stock (Laxmi Machine Works) and invested in it. The stock subsequently went up to 30 fold in period between 1989 and 1994. He provides a valuable information about Lehman bust in 2008 and aftermath. He also deals with certain thumb rules.

Fourth chapter deals with Contrarian Mind. In this author speaks about two types of brains, reflex brains and reflexive brain. The reflex brain which helps us deal with external stimuli and react instinctively in the most effective manner possible and more thoughtful reflective brain which helps us think, analyze, calculate and make intelligent often complex decisions. Prashant Jain says, my way of avoiding falling prey to market noise- something that I follow at all times - is to think, ask questions and think again. Keep doing that. Sanjoy Bhattacharya believes in different definition of risk. Risk is best defined as not knowing what you are doing. This is Buffe's definition of risk.

One of the common ways brokers convince investors to buy stock saying everybody is buying, prices are going up fast. Successful investors are able to avoid these emotions by simply not being bothered about what others are doing. A contrarian mind protects successful investors from the fate awaiting the rest of the herd. A contrarian mind, because it is

not tempted by the desire to join the herd, is therefore able to profit at the expense of average investor. Successful long term investors are as human as rest of us. However what they have mastered i.e. how to deal with fear and greed. The investment philosophy of Mr. Shashi Reddy who is working in First State Investments , the consolidated asset management business owned by Commonwealth Bank of Australia.

Author offers himself as a case study narrating his experiences in investing. The major challenge is psychological aspects of investing which are harder to understand. The author finds a similarity between psychological profiles of Gurus. They say that best time to invest is when no one else is doing so. Author himself invested half of his savings in small-mid cap equity funds in August 2013 .When Sensex was around 18000. In august 2014 Sensex was at 26000, up over 40%. His investments are up nearly 100%. Now as a contrarian when everybody is buying author wants to book profits by selling the funds.

The fifth topic deals with Guru in you. There is an interview with Anonymous Guru, who was until recently the chief Investment Officer of India's most prestigious mutual fund houses. As we live in the real world of demanding day jobs and even more demanding families. So how can we become successful long term investors? Author gives certain tips for common investors which will be very useful. Entering stock market without such a set of rules is like setting sail without compass. In a country like India people who gravitate towards stock market are relatively well qualified. Because these guys are intelligent, they think that they can do much better than the broader market. Hence they tend to take a lot of shortcuts which they feel will probably convert their ideas into money quickly. As per the Guru the game as far as investment is concerned stick to a few basic tenets and follow those with patience. His philosophy - This business rewards someone who is patient rather than someone who needs a quick fix.

Conclusion

The book tries to answer the basic questions in the investors mind. It also guides the eager investors by revealing the techniques, philosophies of experienced Gurus for building and managing successful portfolios for investment in the stock market.