Our Understanding of Risk

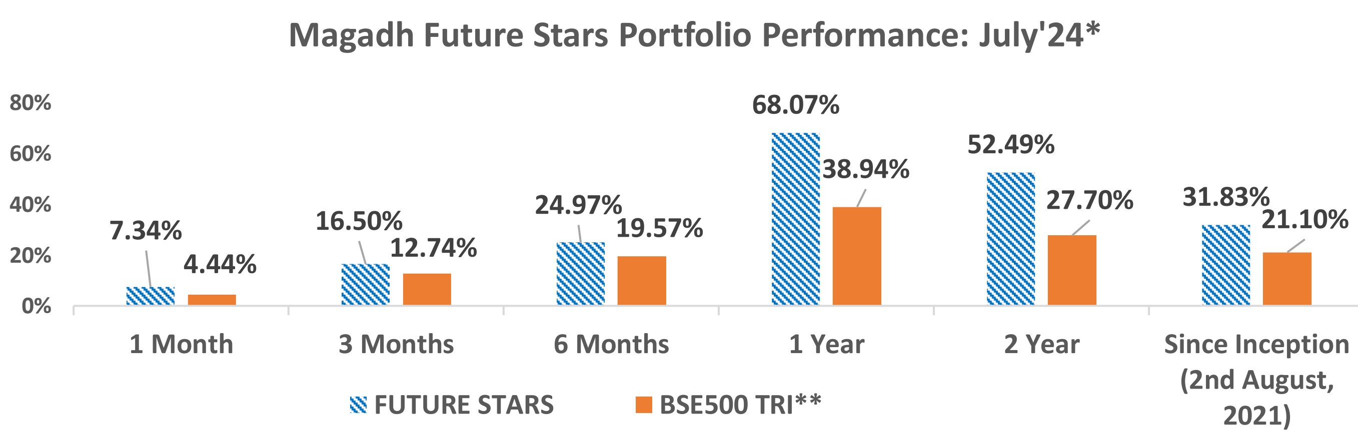
July again turned out to be a good month for Indian equities. However August till date has witnessed volatilility in equity markets across the globe. Hike of policy interest rates to around 0.25% by Bank of Japan on 31st July seems to have been the biggest dampener for global stock markets. This hike has reversed the tide of global liquidity emanting from Yen carry trade. Then, the latest job data in the USA released on 2nd August was much weaker than general expectations sparking fears of potential recession there. Geopolitical uncertainty too continues to keep markets on their toes with heighthened tension in West Asia. This week a fresh trumoil emerged next-door for India as the earlier Prime Minister was deposed in Bangladesh.

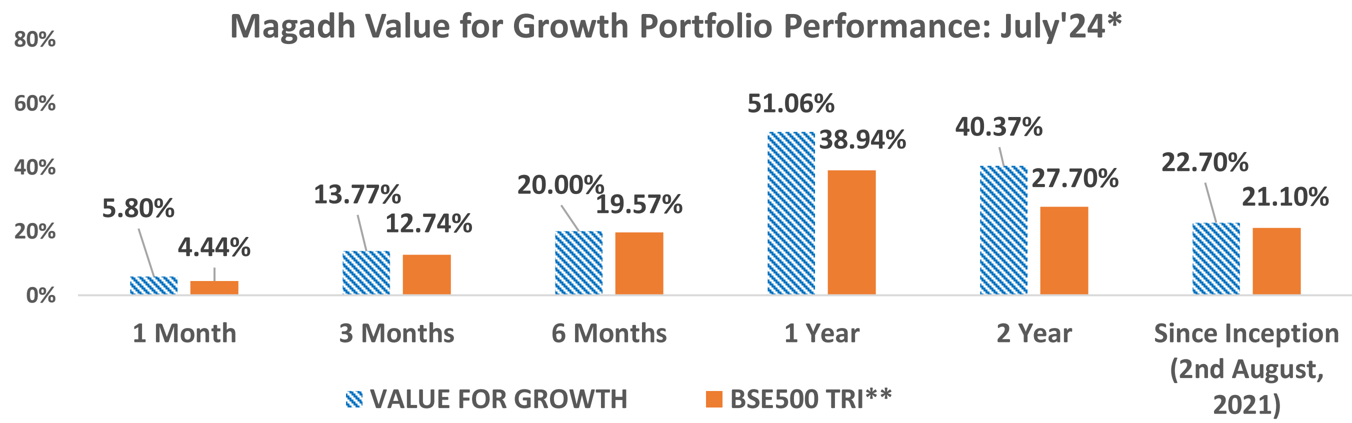
How are we positioned: We at Magadh Capital remain fully invested and are deploying funds that are coming as fresh subscription to our PMS. To us timing the markets is so difficult that it becomes futile. In any case unless one is prepared to stomach 10-15% decline in portfolio value one should not invest in equities. At Magadh Capital we take a cash call only if we assign a high say, 70-80% probability to the event of significant, say, 25% or more dip in market.

At current juncture we see a relatively low probability to market decline of more than 25%. We believe that unwinding of Yen carry trade is non-fundamental factor for equity markets and has less relevance for Indian markets over medium term. Secondly, fears of recession in the USA seem overblown to us – every economic slowdown does not necessarily descend into a recession. Finally, the markets seem to have priced in the current level of geopolitical risks.

Magadh Capital PMS continued with its robust performance (as in the below charts) for both its approaches – "Value for Growth", as well as "Future Stars".

How do we perceive risk: 1) Volatility is not risk. Indeed, ability to digest volatility can provide an edge to a long term investor. 2) Risk implies higher expected returns but higher risk does not necessarily translate into higher returns. Just by buying riskier stocks we may not get rich. 3) Riskier investment when priced properly should lead to higher expected returns, possibility of lower returns, and in some cases possibility of losses.





**Date is for the period Aug 02, 2021 till July 31, 2024. Performance is as TWRR - Time Weighted Rate of Return. Data for more than one year has been annualized. Past performance is no guarentee of future returns. Performance data provided herein is not verified by SEBI. **TRI - Total Return Index. All the figures above are after deducting fees and expenses.*

Risk is possibility of permanent erosion of wealth. Or of less returns than required. Risk is falling short of one's goals. Hence risk is subjective and personal.

Risk of loss does not always follow from investing in fundamentally weak assets. Risk is high purchase price.

Risk of loss is not always engendered in weak macroeconomic environment. Arrogance, failure to understand and allow for risk, and at times even a minor adverse development can be enough to wreak havoc. Over optimism, attractive narratives, and high entry price can lead us on a high risk path.

Experience, temperament, and ability to estimate the fair value of a stock in a narrow range help us at Magadh Capital.

For small and mid cap stocks illiquidity can be a significant risk factor.

Risk is underperformance over long term.

Risk is unconventionality. When it comes to investing it pays to stick to the rule book and to conventional wisdom.

Date: 08-08-2024