The financial year has started well. The market and the Indian economy have done well and seems to be on good trajectory.

Both the active equity funds, Shree Lakshmi and Shree Vriddhi, have managed to consistently perform well as you can see in the table below (individual returns will vary depending on when you have started).

	Shree Lakshmi	Shree Vriddhi	BSE 500 TRI	Nifty 50
Q1FY24: 1 Apr-23 to 30-Jun-23	18.6%	23.8%	13.2%	10.5%
1HCY23: 1-Jan-23 to 30-Jun-23	15.3%	17.7%	6.3%	6.0%
1-Jul-22 to 30-Jun-23	24.9%	31.2%	24.0%	21.6%

Table 1: Performance of Shree Lakshmi and Shree Vriddhi

Our main focus in both the funds is to buy good businesses that can deliver reasonable but better than index returns over time while always looking at protecting the downside. That is one reason why we are perhaps the only PMS who use stop losses even while making long-term investments. Our core belief is that if we can protect the downside, most of the time, the upside takes care of itself.

What we see in the world around us

Inflation is started cooling off. The RBI Governor has indicated that the interest rates would be on pause and depending on inflation he may decide to reduce interest rates. I am of the view that inflation and interest rates have both probably peaked out and we are likely to see a reduction in rates from beginning of 2024.

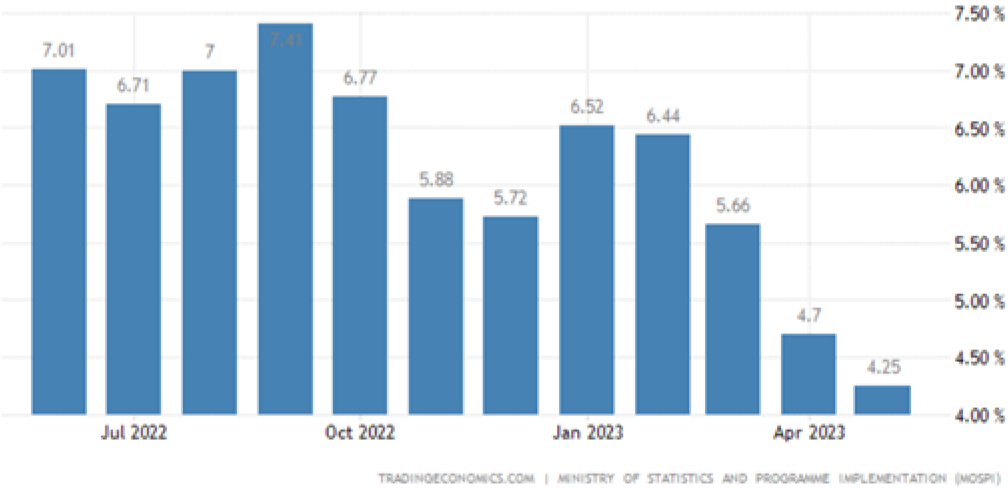

Fig: India's inflation Rate

India's trade deficit is reducing from record levels and FPI inflows are gaining momentum. This augurs well for India's external position and the Rupee for the next few quarters.

Indian banking sector, one of the most important sectors from an overall economy perspective, is buoyant. The asset quality environment is favourable, with NPAs at 10-year low and expected to remain below the long-term average.

The time for India

If you follow the global news, you would have already noticed that India has started getting mentioned in the mainstream media much more than ever before. And the mentions are mostly positive in terms of our economic development and markets. Large global investors are talking about India being a must-invest country and the lack of alternatives in emerging markets with China and Russia becoming increasingly politically isolated makes India an attractive investment destination.

This change is not going to be rapid but a slow and steady one. China took about twenty years to become the world's factory and it may take a similar timeframe for capacities to get redistributed.

<u>Market Timing</u>

It is very difficult to be able to consistently time the market and get in before a big rise and get out before a big fall. The most practical option is to remain largely invested based on your ability to stomach a market downturn. And that leads me to my thumb rule of not investing money in equity if you would need it in the next three years.

As per some studies, if you invest with a one-year horizon, it is approximately a 33% probability of losing money. If you invest with a five-year horizon, there is approximately 8% probability of losing money. If you invest with a 10-year horizon the probability of losing money would be approximately 3% and if you invest with an over 15-year horizon, there would be an approximately 0% probability of losing money.

In general, even if you are unlucky and invest today and the market crashes, history says that you have a decent probability of getting even if you have a holding period of over 5 years.

<u>Pros and Cons Now</u>

First the positives:

- India is in a sweet spot now with global flows coming in as FDI and FII.
- The global news coverage has become positive with India increasingly being discussed as one of the main alternative investment destinations in the "China+1" world. Mexico, Vietnam and India are the main contenders for replacing China as a major manufacturing source. Also, given the size of China's manufacturing base, it will take many years or decades for this theme to play out.
- The domestic economy is improving with inflation cooling off.
- Interest rates look to have peaked.
- Oil prices are moderate and have not spiked.
- We are in a pre-election year, which sees large investments in infrastructure spending. This typically boosts growth.

And the negatives:

- A large per cent of the population is dependent on monsoons for livelihood and we are still unclear on how the El Nino effect will impact agricultural income this year.
- Oil and Food - the two biggest components of our inflation are beyond the control of monetary policy.
- The rural economy is still not out of the woods post the pandemic. Erratic monsoons this year may add to their woes.
- With a very large young population, job creation is not keeping pace with the requirements. This can have potentially harmful long-term implications with the demographic dividend turning into a demographic disaster.

Way Forward

The most common question I get these days is "Market is at an all-time high. Should I invest now or wait?"

My answer is always the same. If you have excess savings that you don't need for the next two-three years, the best thing to do is to invest in businesses.

No one knows what tomorrow will bring. If you are investing in equities, be prepared for a 10-20% drop at any time.

But looking at how things are shaping up, the next few years are looking good. The current situation reminds me of William Shakespeare's famous lines in Julius Caesar,

"There is a tide in the affairs of men
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.
On such a full sea are we now afloat;
And we must take the current when it serves,
Or lose our ventures."

My sense is we are in such seas now which can lead us on to fortune over the next decade.

If you have additional capital to spare, it might not be a bad idea to setup an SIP in either or both of the funds with a 3–5-year time horizon.

As always, feel free to reach out to me at equity@shreerama.co.in for any questions or feedback.

Regards

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  1) the timing of inflows and outflows of funds

  2) differences in the portfolio composition because of restrictions and other constraints.

- Past performance should not be taken as an indication or guarantee of future performance.