



CREATING WEALTH THROUGH STOCK INVESTING

Gunesh Apte



BUY NOW

BUY STRATEGIES

Buy Strategies (1 of 3)

- Study the business for few weeks / few months before buying a stock
- Many times, you can buy stock present in your existing portfolio
- Buy stock based on its intrinsic value / fair value and current value
- Buy when its current value is less than its fair value (This is similar to buying a shirt when it is available at some discount during sale)
- Ensure that, you are buying stock at the price from where you can get minimum 15%-18% CAGR returns in next 3 years
- If above rules are not followed, returns are generally less (5%-10% CAGR only)
- Buy undervalued stocks which are fundamentally strong and business is growing

Buy Strategies (2 of 3)

- Peter Lynch recommends buying Growth Stocks having Buy ratio ≥ 2 and Avoid buying if Buy ratio ≤ 1
Buy Ratio = (Forward Earnings Growth + Dividend Yield) / Current PE ratio
In nutshell, You can buy a growth stock when forward PEG ≤ 0.5
Note: Forward PEG(PE to Growth ratio) = 1/Buy Ratio
- If you buy stocks at high PEG ratio, your conviction must be very high that, business would grow at 30%-40% for next 3-5 years to sustain such high PEG ratio
- Above rules can be discounted for consistent high PAT growth ($>25\%$), high ROE ($>25\%$), high ROCE ($>30\%$) stocks and FMCG stocks only
- **Do not sell any stock to buy new stock unless required**

Buy Strategies (3 of 3)

- Regular Dividend Re-Investment and staying Invested a in consumer-facing branded Pharmaceutical, FMCG and Tobacco companies has proven to be the best Long-Term Investment strategy of all-time
(Prof. Jeremy Siegel's outstanding research for the US market)
- Expectations are usually built-in in the stock price, and that the returns depend on the **gap between expectations and actual results** delivered by the underlying business



SELL STRATEGIES

Sell Strategies

- Do not relate SELL with BUY transaction
- Sell when stock is overvalued and next 2-3 years price is already factored into it
- Sell to re-balance your portfolio (e.g. Sell overvalued IT stocks and Buy banking stocks if those are undervalued)
- Do not keep %weight of one stock above set threshold (Say, 10%-15% for 15-20 stock diversified portfolio)
- Sell when original hypothesis while buying no longer holds
- Sell when fundamentals of company have worsened or government regulations are not in favor
- Do not Sell long term stories for buying another short term story as much as possible



BUY / SELL FRAMEWORK

Buy / Sell Framework

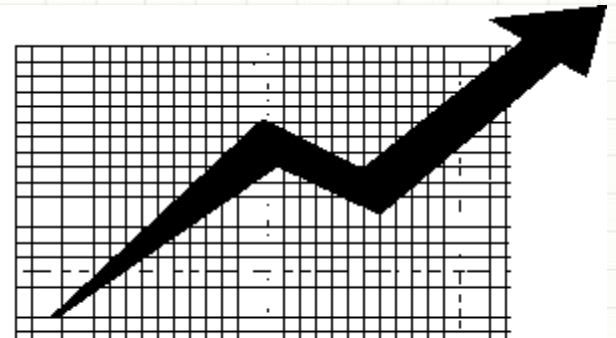
- Do not get carried away by Buy reports of Brokerages as they always give Buy/Neutral (Rarely Sell)
- Do your own analysis to judge intrinsic value / fair value of the stock before buying
- Do not sell to book short term loss without checking for brokerage costs
- Do not sell if stock has corrected due to some short term problem / news.
Wait for the short term problem to get resolved
- **Do not churn portfolio too often as that would increase your brokerage costs, short term capital gains tax and overall returns may not be great**



PORTFOLIO MANAGEMENT

Managing Diversified Portfolio

- ✓ Diversify across 4-5 sectors (at least 2 sectors must be defensive – Pharma, FMCG)
- ✓ As far as possible, aim to replace stock in particular sector by another opportunity in same sector
- ✓ If rule 2 is not followed, Portfolio gets skewed towards particular sector (e.g. IT/Pharma)
- ✓ Ensure that, weight for one sector do not exceed $> 30\%$ (Morning star philosophy)
- ✓ Portfolio Balancing is important to generate consistent 15%-20% CAGR – Sell overvalued stocks if required to reduce its weight to the set threshold
- ✓ In a 15-20 stock portfolio, ensure that single stock should not exceed 1.75 times to 3 times average allocation of 5%-6%
- ✓ Total number of SELL cases should be max. 6-7 per year and BUY cases should be max. 6-7 per year, with 2-3 years perspective of holding
- ✓ Single stock should not exceed 8.75% to 15% of your portfolio



SUCCESS

SUCCESS STORIES

Success Stories from Indian stock market (1 of 2)

Stock	Buy Price	Sell / Current Price	Duration	Price CAGR	Lessons
Dabur	130	165	8-9 Months	35%	It was fairly valued compared to peers Got re-rated (Conviction = Medium)
Bajaj Corp	225	490	1 Year 2 Months	90%	It was undervalued compared to peers Got re-rated (Conviction = High)
Kotak Bank	650	950	8-9 Months	50%	Fairly valued at the time of buying Long term wealth creator in MOSL report (Conviction = High)
Cipla	375	700	1 Year	85%	Undervalued while buying Correction of 15 % at time of buying Re-rated (Conviction = Medium)
HDFC Bank	600	1800	6.5 Years	24%	Fundamentally strong May look overvalued at times Can generate > 25% CAGR if bought at right price (Conviction = High)
Sonata Software	154	280	1 Year 4 Months	>60%	Undervalued while buying Sentiments for IT industry were negative Different than traditional IT business (Conviction = High)
Control Print	250	489	1 Year	90%	Niche business with increasing market share Was available at reasonable price in Dec 2017 (Conviction = High)

Success Stories from Indian stock market (2 of 2)

Stock	Buy Price	Sell / Current Price	Duration	Price CAGR	Lessons
Yes Bank	240	520	2 Years	48%	It was under valued compared to peers Got re-rated Mid Cap turned into Large cap High growth (>30%) story (Conviction = High)
STFC	650	950	2 Years	20%	Slow growth story Sudden upward movement after NDA Govt Good decision to Sell at that time (May-June 2014) (Conviction = Medium)
TCS	600	2500	10 Years	16%	Fundamentally strong company ROE > 30%, ROCE > 40% Long term story (Conviction = High)
Avanti Feeds	350	2400	3 Years	89%	Long term growth story Sea food consumption story Low OPM and NPM was the concern (Conviction = High, Risk = High)
Vinati Organics	390	1022	2 Years	60%	Long term growth story Bought when market was pessimistic due to reduction in oil prices from 50\$ to 28\$, which is the input material High quality ROE and ROCE business (Conviction = High, Risk = Medium)



SUMMARY

Summary

- ❖ Using these rules explained in earlier slides, it is possible to generate good / very good returns consistently
- ❖ Sticking to rules and following the process in all times is important
- ❖ Buying and holding undervalued stocks can give good results compared to buying growth stocks (Sometimes Growth stocks fail to grow as per the expectations giving sub-optimal returns)
- ❖ Allocate more money to your high conviction stories than medium/low conviction stories
- ❖ Keep 5%-10% cash available after selling overvalued stocks to grab an excellent buying opportunity at huge discount during market correction(s)
- ❖ Keep accumulating dividends into Liquid / Short term debt fund to preserve cash
- ❖ **Do not look for new opportunities, Let opportunities present themselves**