The lockdown Robinhood

I do have a name, but it doesn't matter. The world now calls people like me Robinhood investors. As per the British folk tale Robin bhaiya was an outlaw, but trust me I have been doing nothing unlawful. My honest intention is only to share my ***pillu investment*** journey and learning of the past 3 months. The journey ended yesterday on August 20th. Just like it was a first time for me as a direct investor in the equity market, this is also the first time I am ever writing an article. I am basically doing it for myself, since the exposure has taught me much and I wanted to capture it in some form.

I started investing on May 19th. My father had been admitted in a hospital and there was plenty of time to kill. Since dad was asleep most of the time, there was a 21 inch TV that served as my only companion. My usual preference is to watch either the News or Sports channels. One was sadly adding to my depression and the other was playing old cricket matches won by India in an attempt to boost our morale. Unfortunately it wasn't working on me. As I browsed impatiently, I entered previously unchartered territory related to spirituality, business trends and even Telugu movie flicks. It was however only the business channels that caught my attention.

In times of gloom and doom, the markets were showing optimism and semblance of an imminent boom. After a panic driven crash in March, the stocks across the globe were making a faster than expected recovery. I sensed an opportunity to learn about investments. In terms of my profession I am engaged in the education sector, especially with schools working with little children from underserved communities. I believe that Play is extremely critical to learning and this was my opportunity to play (with my rules) in the real world with real money. The earning if any would of course be a bonus and in a way serve as one of the indicators in my *self-appraisal*.

Just because I smelt an opportunity didn't mean I could jump into it straightaway. Although I had some background in the corporate sector, my concepts were rusty. Some readings had to be initiated. The first blog I referred was written by a popular investor who sadistically shared that 4 in 5 small investors actually lost money in the market. He was trying to perhaps draw naïve gamblers to his investment firm which would keep you in the elusive 20% who actually made money. I made note of the challenge, but decided not to get dissuaded in my right to play campaign. There was another article by a wise old guru who gave a lot of practical tips on the art of investing. It made a lot of sense to me. He concluded that the best (safest) time to enter was when there was ***blood on the street*** *(market)*, although it was near impossible to precisely time the buying. Indeed Covid 19 had induced this bloodshed and opened up the battlefield for a new breed of Robinhood investors. After this brief warm up routine, a DMAT account (essential for trading) was opened without any further delay. It was only much later that I understood that like me; there were millions who had taken the plunge to make the best out of existing waste (time). It was as big a global trend as the pandemic.

The Starter: Decoding the Plan

The key questions in this phase for me were:

a) How much money (corpus) should one invest?
b) How should one identify sectors to invest in?
c) How should one identify companies within the identified sectors?
d) How many *shares of identified companies should one invest in?
e) At what price should one enter and possibly exit?

*Share is the security that makes you the part owner of a company. I invested in listed companies.

In terms of answers to the above questions **there is no right or wrong approach**. As a 41 year old baccha or novice I can only share the logic I used and which worked well for me. Very clearly, there are many different ways to go about it. I realized that the journey can be more meaningful when there is a ***method in the madness***, rather than random tukkagiri (wild guessing).

The first question on how much to invest obviously depends on **how much money we hold** and **the risk one is willing to take**. This further **depends on our personality** and how one perceives risk. My history of investments across the board (career, relationships, time and money) indicated to me that I was an *average risk taker* and *preferred balanced wins*. By nature I hate to lose which is why I rarely burnout my energy in trying to win big in one area and risk losing in others. Also for that matter if I sense that my chances of losing are high, I tend to exit early and minimize my loss. A few examples would fit in nicely here. One can easily assess his/her **natural risk taking ability** (not under pressure situations) by reflecting on how one has been responding to diverse situations in life.

- When I used to play soccer during my school and college days my style was always to play hard, take the lead and then try and defended it till the end. Goal difference or how many cool goals we scored didn't matter to me at the end of the day as long as we won.
- When I am cooking a dish in the kitchen and after a while something doesn't feel right, I either hand it over to my wife or the bin. This is because I believe that with my limited skills the chance of me overcoming the damage done is very limited.
- In school I was one of the so called talented students. This was due to my sharp memorizing skills rather than any intellectual superiority. If I strived hard I could have vied for the top three ranks in the class. However I am now divulging a long kept secret that I enjoyed being a top 5 - 10 ranked student in class. It not only gave me enough time to play and read novels, but also helped keep the expectations of parents and teachers under check. The win for me was winning in many areas rather than only in academics. I happily clapped for the toppers.

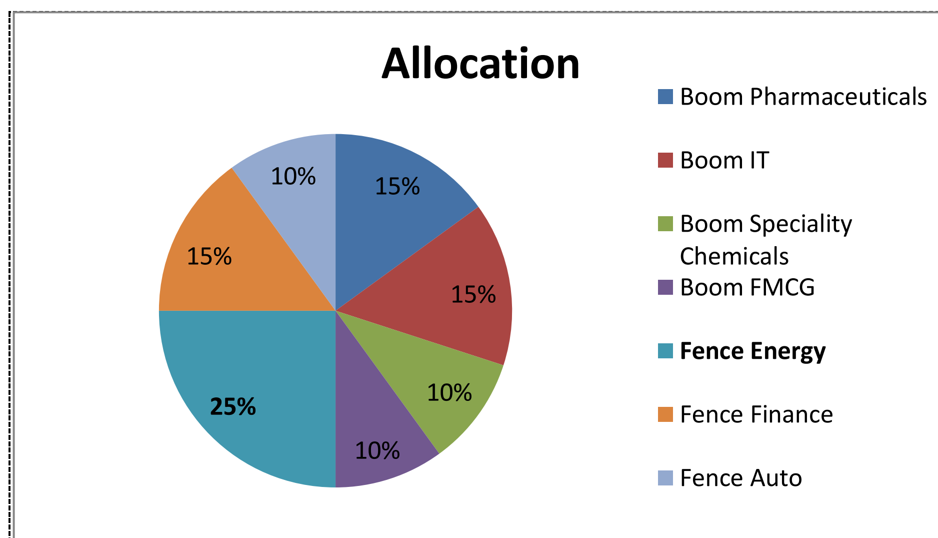
Based on my introspection I decided that I had a risk appetite to commit **25% of my existing savings towards equity** or shares. *This proportion would push me to put in substantial effort in tracking and executing the strategy*. I understand that in Western countries 25%-30% investment in the stock market is almost a norm. In India, it is much less due to the high levels of interest in "evergreen gold" or Fixed Deposits. My own *interest* in FD's has vanished of late after *interest* rates have been reduced to 5% level. The government has been trying hard to propel the Mutual Funds industry but unfortunately for them Robinhood Investors have momentarily hijacked their story by going direct.

The second and third questions on how should one identify sectors and companies to invest in, can be very tricky. Times are changing very unpredictably so unless one has inherited genes of Nostradamus, it is impossible to predict which part of the ocean and which specie of oysters is carrying the gem quality pearl. Also when I closely looked at the portfolio of the big bulls (legends of the market) their big success stories had come between 2000 and 2014. India was very different then. Their tale would typically be about how a penny stock (very cheap) went on to become a blockbuster (very costly) and crores were made. These claims are certainly true, but I doubt whether they had openly published their penny stock then. There is a reason for my skepticism which I shall share later in this article. The bottom-line is that one would need extraordinary foresight and luck to wait for 15 years for a tiny baby fish to become a big whale. In fact, chances are that other fish would probably gulp the baby fish by then. Over the year many such promising small fishes (companies) have been buried under the deep sea and don't exist today. Their coffins also have the wealth of investors whose fortunate sank with the fish. I actually expect this trend to increase now.

The way I identified the sectors to invest in was by reading brokerage reports but forming my own judgment. I made up my mind that 3 years was a reasonable period to stay invested, within the 25% saving corpus of course. Covid 19 had affected some sectors a lot more than others. The retail, hospitality, airline, media and capital goods sectors were most likely to bear the brunt for a good year or two. Even if an affordable vaccine did emerge by the last quarter of this year, the damage towards the demand side of the economy had been done. Lower incomes, loss of jobs and postponing of expansion projects would lead to deep wounds. So regardless of what some pundits said, I chose to stay away from these sectors. At the other end of the spectrum there were the

pharmaceuticals, specialty chemicals, IT and some elements of the FMCG sectors that were likely to boom. One had to still study them closely since trends could change suddenly without warning. This was especially true with pharma. I was uncomfortable with its huge dependencies on China for raw material imports and finished product exports to Europe and US. What if they too adopted Atmanirbharta mission! There were also traditionally popular sectors like Energy, Automotive, Telecom, Finance and Metals which were to me sitting on the fence (neither boom nor doom) and hence needed some detailed analysis. I referred some portals but realized that over analysis would drive paralysis in me (inaction). With some basic summary one would need to go with gut feel. The points below highlight the **broad rules I adopted regarding the sector allocation** (basis of selection):

- 50% in the booming sectors and 50% in the sectors sitting on the fence expecting to recover in reasonably quick time. The latter category was available at cheaper valuation.
- 7 sectors (rough **allocation of 15% per sector**)
- At least 3 sectors would have stocks of 2 companies. The others would have just a single stock in terms of taking a position. This would ensure that roughly 10 companies would be there with 10% allocation of funds in each. (Had my corpus been more substantial I would have added 4-5 more companies but restricted it to 15 overall. Any more would be difficult to manage, since **tracking companies and the sector needed to be a continuous process**.)
- Some sectors have cyclical ups and downs. It was important to ensure we are not entering at the beginning of a downward slide. *This is however a specialized skill which I didn't possess*.



Once I decided on the sector allocation I moved to the all important identification of the right company. Having **the right companies in your portfolio is easily the most critical step** and I thought I needed a separate set of ground rules for it as well. I took some advice from more seasoned investors but made my own decisions. It is reiterated that one has to eventually go with gut feel. <u>These would be based on principles that I would have used had I been in-charge of the company</u>.

- I only selected companies with good profitability margins (whenever recovery from Covid 19 happens these would give higher returns). One can see it in the annual reports. **In my personal life I always like to do focused work with higher potential upsides.**
- Despite not being fancied by many investors, 30% of the companies I selected were government PSUs which have a history of giving attractive dividends (share of profits) to shareholders. In a worst case scenario, their dividend is comparable to the current FD rates. **In my own life I have always preferred Fixed (& assured) returns to my meager investments and not got swayed with promise of quantum returns.**

- The debt situation should be well in control. In fact I picked up mostly debt free companies. Servicing high interests in uncertain times would dent profits for a long time. **In my personal life I am loan and EMI Free. This has given me immense peace of mind**.
- Greater reading and networking gave some key insights into management decisions being taken. 2 stocks I selected were in turnaround category (currently not performing well but taking strong measures). 2 were underdogs which were 2 or 3 ranks below the market leaders in their segments but working hard to bridge the gap. All the others were steady performers with gradual growth and market leadership. **In my career I have always been naturally inclined towards turnaround projects or supporting underdogs. However, since wealth was involved I needed to be pragmatic and allocate most of the money to the leaders**. **In my life I anyways had no problem clapping for my peers who were successful.**
- A friend of mine taught me to interpret cash flows. I cannot underestimate its importance. A lot of the small fish get buried because they couldn't manage their cash. Unfortunately I had already made some wrong investments but ensured that this factor was ticked going forward. **In my own life I keep a decent reserve to take care of unforeseen circumstances**.
- I was advised to be cold blooded and keep emotions out. I listened to them but still bought some stocks that I have a deeper connect with. The ability to monetize good deeds for mother earth is something I would like to be part of. I identified companies into recycling sugarcane to make cutlery, recycled e-waste and working on green energy models. This constituted 25% of the portfolio and I was proud to own them as a small shareholder. It's not as if I will not exit my position forever, but I will continue to find stocks in this category. **In my own life I am associated with several social projects engaged in probono mode**.
- Also while my investment cycle was 3 years I had three categories within my portfolio. 40% (dividend paying stocks) which I would hold for 3 years at least as family. 50% which had significant upsides in which I would keep booking profits in a phased manner. 10% which carried higher risks and which could be sold to reinvest into short term trades. **In my own life I have always believed that happiness is best derived when apportioned to all the three phases; current, near term and long term. My grandfather spent all his work life compromising on current needs just to save for a happy retired life. He had built a decent corpus but unfortunately passed away before he experienced the imagined happiness.**
- Last but not the least I did my best to look at the governance angle. Owners or their relatives not trading in shares of their own company and clean financial reporting were non-negotiable. **In my own life I place a high premium on ethical standards of actions.**

The Main Course: Effective Tracking

Once the investment based on a chosen philosophy and method has happened, most of the next steps are on cruise mode. However there are 4 things which I have continued:

a) There are portals which give investors accurate updates about sectors and specific companies. These along with quarterly announcements are being tracked by me.
b) Other than the family (dividend) stocks the others may be traded based on targets we had set. For example; my target for one share was 30% over 2 years but it got there in a month. I held on to it only till the time I felt the potential upside was negligible. I have realized that selling and booking profits is my true style. There were many shares which climbed steeply after I had sold them *early*, but I had no regrets. I am able to identify new stocks to reinvest.
c) While reinvesting when the market is relatively up, I have at times gone against my natural penchancy to find beaten stocks and instead bought ones at their highs and still climbing. I am emphasizing here the role of momentum, especially for the stocks being traded.
d) Some stocks move in a particular pattern. For example one auto stock kept moving between 156 and 182 for 3 cycles. One needs to observe these patterns and use it to their advantage. I booked profits on two occasions by selling at the higher end of the range and entering close to the bottom. Not all the stocks but 30%-40% of the holding.

The Dessert: Major Takeaways

These 3 months as an active Robinhood have been an eye opener for me. I learnt not only about investments but also about my own personality. I could also derive its relevance with my work. The icing on the cake was the 22% gain on investment, which was very satisfying given that I could plan and *play the game by my rules*. I am certain a lot of readers will disagree with many things I have written. I humbly accept that I may be wrong is some aspects as can be expected from a beginner. As the saying goes, I perhaps had beginners luck. The **goal of writing this article was keeping in mind that beginner investors may find it useful**. I have reflected on what clicked and what did not and here they are:

- Like any human being no organization is perfect in all aspects. The fact that **I had a criteria checklist of 5 core items** important to me prior to putting in the money was immensely helpful.
- Most stocks that were dirt cheap were there for a reason. I did a small sample study and found that a **majority had governance issues**. This was a straight red flag (stay away) for me.
- **I enjoyed the process** of getting into the financial documents and pick up other important shares related ratios like EPS, PE, Price to Book Value, ROA, Current Ratio and Debt Equity ratio the benchmarks of which differed from industry to industry. Also reading diverse sets of information (including industry trends) helped me connect the variables. This ensured that I backed every spend with a logic. Simply following the recommendations of brokerage houses or going by the picks of big bulls was pretty risky. I noted that on at least 25% of the occasions the reverse happened and several times they contradicted each other. More importantly many of the big bull picks were extremely volatile stocks. My radars indicated that it was being played to a pre-designed script but I wasn't sure. Preferring stability **I followed my own rules of investing**.
- For novice investors it is easy to get carried away with quick gains. We tend to reinvest quickly thinking the gain cycle will continue. I too got trapped into it during the first month. I thought I was very calculative and patient by nature but when under pressure to make immediate decisions I realized that **I could make extremely irrational decisions**. In one rush of blood I doubled the investment in a stock by reallocating the proceeds of another good stock. The times were good so I perhaps got away without being punished.
- I kept rotating the stocks (other than those in my Dividend category) by buying and selling constantly. I perceived it as a smart move. Was afraid that the market will collapse once poor Q1 results will start to get announced. None of that happened as the buoyant market went all the way to get within touching distance of pre-Covid levels. Thankfully despite my negativity about lack of a correlation between the economic reality and market movement I kept riding with it, regularly booking profits in anticipation of a correction. **I danced with the market all the way** till yesterday (20th August) before finally calling it quits. This was because I got a feeling that I was standing at the edge of a very steep cliff. Yes I gained 22% on an average but on hindsight even If I had stuck to my carefully picked original shares the reality would have been the same if not better. This was in a way a dejavu feeling. In my decade long corporate career I had seen several people switching jobs constantly. They thought that they would be CEO's by the age of 35 due to this bunny jumping. I too had my fair share of switches although my motivation was not position or monetary growth. When we were indeed 35 years of age we all met at an alumni gathering. It amazed me from my conversations that the *one company mates* (hardly 10%) were in fact doing better than the *switch hitters* and *bunny jumpers*. As mentioned earlier I feel that it is not prudent to stay invested for 15 years, but fidgeting around doesn't really take you anywhere.
- Other than the stocks invested from a Dividend perspective, for all the others there is a popular "stop loss" method which seasoned investors adopt. **We cannot win in all the bets.** In some cases I too sold at a loss using this method so that the loss was minimized. That threshold is a matter of judgment which can be anything from a 10% to 30% depending on how confident we are that the stock will rebound. If the fundamentals are good it is bound to happen. The most important learning for me over the past 3 months is my concluding sentence. **While playing I was personally ok losing some money in a good company than making money in a bad one.**