

Quantamental

The System is the Edge!

Quantletter March 2020

Volume 1 Issue 2

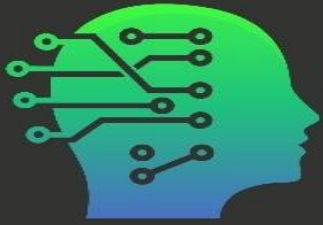
There are decades where nothing happens; and there are weeks where decades happen." The last few weeks have been truly unprecedented, both in our personal lives and our investing journey. The timing of Q30 launch just happened to coincide with what may aptly be called "Great Corona Crash". What that meant was that the inaugural edition of the newsletter was sent out on 29th Feb and it had to be quickly followed by exit instructions in two tranches on 12th March and 16th March. Expectedly there were various queries around stop losses. Below are two pertinent queries followed by the responses.

"I see that some of the companies share price movements are indicating strength over the others. Each stock underperforms differently from the other within the portfolio, logically the stop loss would get triggered at different levels of underperformance, right?"

- The stop loss can be both at individual scrip level or it can be at portfolio level or both.
- Stop loss at individual scrip level is very common. And there are so many ways to go about it. However if only this method of stop loss is followed, then in times of market wide distress like the current one, nearly every stock sooner or later will hit the stop loss limit effectively ensuring that you end up losing the maximum possible stop loss on the entire portfolio.
- As an example, let us assume that stop loss is set at 20% from buy price. When the market is doing well, occasionally few stocks will hit this limit while the rest will not, and the portfolio overall will do well absorbing the losses in these few specific scrips
- But during those market environments when literally everything is falling, like they are now, you can imagine that nearly all stocks will hit this level one day or the other and the portfolio will crash badly. There is no point of having stop losses if every stock in the portfolio hits a stop loss.
- That is where the portfolio level stop losses come into the picture simplifying the decision making and ensuring that the entire portfolio is liquidated partly or fully without waiting for each stock to hit their individual stop losses. That is why in specific circumstances like the current one, even when some stocks are displaying more relative strength vs the rest, the logic of portfolio level stop loss helps in containing the damage, rather than sticking with the stocks which haven't fallen to the stop loss level.

"Can you please explain what stop loss mechanism have you devised? When even some nifty stocks falling more than 10% in a day, wouldn't it be late if our stocks fall steeply and faster than anticipated and we don't get a chance to put in a stop loss then? Why have you not shared the stop loss upfront along with the list? Moreover since the overall portfolio is about x% down so would it be a good idea to average down and increase the capital invested?"

- There are multiple questions here. Let's look at them one by one.
- The current stop loss that is devised is fairly complex with multiple parameters and cannot be dumbed down to sharing in advance that please exit if the stock falls below say 20% from the purchase price. That is why no stop loss level was shared upfront.
- With any stop loss method, be it individual scrip level or a portfolio level, there is always a risk of the stocks overshooting the stop loss. That's part and parcel of investing.



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· Adverse market environments are also usually accompanied by very high volatility. Even in good times, specific stocks can be very volatile on certain days where the intraday movement can be a very wide range. For this reason, it is not a good idea to monitor prices intraday and trying to figure out whether the stop loss level has been hit. As we have experienced on several days in the past month, stocks have fallen badly in morning only to recover and even post gains by market close and vice versa. So our system takes in to account only end of day prices to determine whether the stop loss has been hit whether individual or portfolio level. The suitability of a specific stop loss method depends on the nature of the underlying strategy. For the Q30 quant system, we will not be bothered by intra day volatility and will always follow end of day prices to determine if any stop loss has been triggered.

· Q30 is a quant system and it does not involve averaging down to increase the capital invested because in a specific month the portfolio has gone down by x%. The whole idea of having a quant system is to follow it diligently and not try to override it based on personal discretion. As and when you have increased capital to invest, add that in the beginning of the period when you are entering the scrips and not as an averaging strategy.

To repeat, once again, drawdowns in Q30 quant portfolio is a feature and is not a bug. There is a trade off between returns and drawdowns.

Any form of equity investing necessitates sitting through drawdowns. Being comfortable with some degree of drawdown is a precondition for being able to enjoy the higher gains which inevitably accrue following a strategy with an edge month on month.

Having said that, drawdowns cannot be allowed to become deep and remain open ended. The higher the drawdown, longer the recovery time to get back on track. These are the two balancing factors which has been incorporated in to the Q30 system design. We will take drawdowns in our stride and keep following the system with discipline. As and when markets turnaround, we will be more than compensated. We have to stay in the game with most of our capital intact.

Q30 Quant Stocks basket for April to June 2020.

Stock Name	NSE Code	LTP	Market Cap	Reset Date
Hindustan Unilever	HINDUNILVR	2298.50	4,96,476	30-06-2020
Nestle India	NESTLEIND	16300.60	1,57,170	30-06-2020
Dr Reddy's	DRREDDY	3120.75	51,867	30-06-2020
Cadila Healthcare	CADILAHC	267.25	27,366	30-06-2020
IPCA Labs	IPCALAB	1392.25	17,591	30-06-2020

- The Q30 Portfolio started with a notional starting capital of 1 million INR
- 1/3rd of the capital was invested in the March basket of 10 stocks and stop loss was triggered in two tranches.
- The March basket suffered a loss of ~13.3% and the overall loss at portfolio level was ~4.5%. We have been sitting on cash since then.
- The current basket has only 5 stocks. 1/3rd of Capital is supposed to be deployed across 10 stocks. Since we have only 5, we will deploy 1/6th of capital in hand to these 5 stocks in the model portfolio and continue to remain ~83% in cash.
- We are enclosing the complete list of model portfolio transactions for March so that it helps understand the execution approach



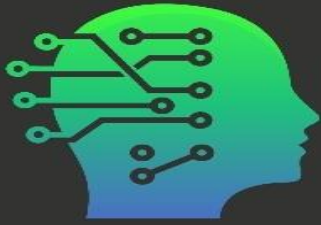
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Transaction Date	Company Name	Transaction Type	Price	Shares(Credits /Debits)	Balance Shares	Brokerage Per Share	Amount(Credits/ Debits)	Cash in Hand
28-Feb-2020	Abbott India	Buy	15,720.00	2.00		2.000.15%	31,487.00	968513
28-Feb-2020	Deepak Nitrite	Buy	461.90	72.00		72.000.15%	33,307.00	935206
28-Feb-2020	Garware Technical Fibres	Buy	1,560.00	21.00		21.000.15%	32,809.00	902397
28-Feb-2020	ICICI Securities Metropolis	Buy	476.00	70.00		70.000.15%	33,370.00	869027
28-Feb-2020	Healthcare	Buy	1,850.00	18.00		18.000.15%	33,350.00	835677
28-Feb-2020	Mishra Dhatu Nigam	Buy	252.00	133.00		133.000.15%	33,566.00	802111
28-Feb-2020	Navin Fluorine International	Buy	1,454.00	23.00		23.000.15%	33,492.00	768619
28-Feb-2020	Polycab India	Buy	1,069.00	31.00		31.000.15%	33,189.00	735430
28-Feb-2020	Tasty Bite Eatables	Buy	11,942.00	3.00		3.000.15%	35,880.00	699550
28-Feb-2020	Tube Investments Of India	Buy	527.00	62.00		62.000.15%	32,723.00	666827
05-Mar-2020	Navin Fluorine International	Dividend	1,419.70--			23.00--	-92.00	666919
11-Mar-2020	Tube Investments Of India	Dividend	501.95--			62.00--	-217.00	667136
12-Mar-2020	Mishra Dhatu Nigam	Dividend	190.00--			133.00--	-133.00	667269
12-Mar-2020	Polycab India	Dividend	875.25--			31.00--	-217.00	667486
13-Mar-2020	Abbott India	Sell	14,973.95	-1.00		1.000.15%	-14,951.00	682437
13-Mar-2020	Deepak Nitrite	Sell	468.70	-36.00		36.000.15%	-16,848.00	699285
13-Mar-2020	Garware Technical Fibres	Sell	1,261.80	-11.00		10.000.15%	-13,859.00	713144
13-Mar-2020	ICICI Securities Metropolis	Sell	377.00	-35.00		35.000.15%	-13,175.00	726319
13-Mar-2020	Healthcare	Sell	1,683.90	-9.00		9.000.15%	-15,132.00	741451
13-Mar-2020	Mishra Dhatu Nigam	Sell	222.25	-62.00		71.000.15%	-13,759.00	755210
13-Mar-2020	Navin Fluorine International	Sell	1,351.75	-12.00		11.000.15%	-16,197.00	771407
13-Mar-2020	Polycab India	Sell	929.30	-16.00		15.000.15%	-14,847.00	786254
13-Mar-2020	Tasty Bite Eatables	Sell	10,761.30	-2.00		1.000.15%	-21,490.00	807744
13-Mar-2020	Tube Investments Of India	Sell	470.50	-31.00		31.000.15%	-14,564.00	822308
16-Mar-2020	Deepak Nitrite	Dividend	429.25--			36.00--	-162.00	822470



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17-Mar-2020	Abbott India	Sell	14,904.65	-1.00--		0.15%	-14,882.00	837352
17-Mar-2020	Deepak Nitrite	Sell	410.90	-36.00--		0.15%	-14,770.00	852122
	Garware Technical							
17-Mar-2020	Fibres	Sell	1,201.45	-10.00--		0.15%	-11,996.00	864118
17-Mar-2020	ICICI Securities	Sell	341.05	-35.00--		0.15%	-11,919.00	876037
	Metropolis							
17-Mar-2020	Healthcare	Sell	1,651.70	-9.00--		0.15%	-14,843.00	890880
	Mishra Dhatu							
17-Mar-2020	Nigam	Sell	201.20	-71.00--		0.15%	-14,264.00	905144
	Navin Fluorine							
17-Mar-2020	International	Sell	1,290.20	-11.00--		0.15%	-14,171.00	919315
17-Mar-2020	Polycab India	Sell	833.95	-15.00--		0.15%	-12,490.00	931805
	Tasty Bite							
17-Mar-2020	Eatables	Sell	10,069.20	-1.00--		0.15%	-10,054.00	941859
	Tube Investments							
17-Mar-2020	Of India	Sell	450.00	-31.00--		0.15%	-13,929.00	955788

Disclaimer

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