The two Guru Mantras of Investing

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***"Arey woh XYZ stock bataya tha na - it is up 80%!", "ABC ekdum solid hai. Set for a run", "PQR kya lagta hai?"* Sounds like familiar party conversation…or something that you watch financial channels for?**

If your aim is to have fun discussions in parties, this is the right way to go. But if your purpose is to protect and multiply your wealth, you have to take another path altogether.

After all, the Indian market has delivered a mere 4% CAGR over 5 years - just about as much as a Savings Account would fetch you.

And if you go back 10 years, it is still only as much as a bank Fixed Deposit ie 7% annualised.

So, what should be your guiding principle in investments?

There are actually two: Asset Allocation and Global Diversification

Why Asset Allocation?

Depending on the study you read (and there have been many), you will find that fully 85% to 92% of the returns of a portfolio come from asset allocation!

You got that right!

Specific stock selection, which eats up most of your/ your advisor's waking hours contributes only 10 to 15% of the returns.

To give a recent example: In 2019, government treasury instruments in India were up 9.5%. Gold prices rose 24.6%. In contrast, Nifty500 delivered a mere 7.7% return.

2020 has been along the same lines too.

So, you would have been much better off had you switched or allocated, to gold or Government bonds instead of chasing stock tips.

And your financial advisors should have also asked you to move away from equities - which obviously is tough for them, because it does not make THEM money.

Moral of the story: it does not make sense to concentrate your resources and time on security or stock selection.

Focus should be on getting your Asset Allocation Strategy right. Your Investment pie chart.

But all the talk you will hear from Portfolio Managers is how good they are picking stocks and great bottom-up winners.

The uncomfortable point is: bottom up stock picking is a very very difficult art and nobody in the history of investing has been able to do it successfully for decades.

Yes, not even Warren Buffet.

For the last 2 decades, he has consistently underperformed the stock indexes in most years and but for an outsized and risky position in Apple (it is now 40% of his equity portfolio), the underperformance would have been even more.

This is PRECISELY the problem with the "sexy" bottom up stock picking approach. Everybody is relevant in a period. And one fine day, the market changes, and you and your strategy become irrelevant.

Therefore, when picking people to manage your money, check the approach and their strategy.

The Golden Key to Investing
Most investors fall in the very familiar trap of getting over exposed to the hot asset class of that era.

The key to successful investing, over the long term, is to have every major Asset Class in your consideration set: across countries & currencies and across investible assets: Equity, Fixed Income, Real Estate, Precious Metals, Other Commodities etc. AND carry out dynamic and Tactical asset allocation.

Remember: There is always a Bull Market somewhere in the world, even as there is a Bear Market elsewhere at the very same time!

View this list of bull markets: Technology in 1998, Emerging Markets 2004-07, Commodities: 2003-08, US equities-Tech: 2010 onwards, Japan: 2013-15, Global Fixed Income: 2009 onwards.

Which brings us to the second part of the equation.

Global Diversification
If you think the returns in the Indian markets were anemic in Rupee terms, they look even worse in US Dollars. Over the last decade the Indian stock market has returned barely 2% pa in Dollar terms even as the MSCI World is up 2.5 times.

So being invested only in India has made you substantially poorer in relative, dollar terms.

And this is even without factoring in the risk of possible one-time large-scale economic crises or recessions - the sort seen by the Asian Tigers in the late 90s and by Japan through several decades - which crippled their domestic investors.

The one thing to avoid at all costs: Single Country Single Currency Single Asset Risks (SCCARs) ie you must diversify into Global Investments.

Which brings us to the related question: **How do you do Global investing?**

Global Investing is extremely complicated, difficult and in fact, it can be very dangerous because of a million factors affecting companies and Markets at lightning fast speed. The level of complexity is huge.

After all it is no child's play to understand the factors impacting Indian equities. Multiply that about a million times when you're analyzing the whole globe.

So are ETFs and Feeder funds into, say the Nasdaq, the answer? Unfortunately the solution not so simple.

By entering the equity market in a single other country, you are not really getting rid of SCCARs - the only difference now is that instead of one country you have exposure to two countries - still only in equities. Hence, the risk still remain almost as high.

The other very real issue: the Feeder Funds/ ETFs just put you into another country/ asset class which is the most popular at that point in time.

And usually that ends badly.

Almost every year a different market or asset class does well.

Take a look at the table below which is eye opening.

See how rapidly global leadership keeps changing year to year.

Denmark, was the best performing market in 2015. 2016 belonged to Brazil. And see where it is now.

2019 belonged to Russia!

And 2020, Russia, Brazil (and India) are now right at the bottom!

In 2019, what is most interesting is that, high yield Global debt & REITS gave returns of 20-30%%+!

In the first quarter of 2020, even as equity markets around the world tanked 20-35%, US treasuries returned 10-20% (depending on the bond tenure)

Yearly Global Market Performance

	CY 2015		CY 2016		CY 2017		CY 2018
DENMARK	14.8%	BRAZIL	69.1%	TURKEY	37.4%	US-NASDAQ	-1.1%
US-NASDAQ	8.4%	RUSSIA	52.0%	SOUTH KOREA	36.9%	BRAZIL	-1.8%
JAPAN	8.0%	THAILAND	20.5%	**INDIA**	**36.2%**	**INDIA**	**-3.0%**
CHINA	4.7%	INDONESIA	17.9%	HONG KONG	35.0%	US-S&P 500	-6.2%
BELGIUM	1.1%	TAIWAN	12.8%	S.AFRICA	32.6%	RUSSIA	-7.5%
ITALY	1.1%	US- S&P 500	9.5%	US-NASDAQ	31.5%	MALAYSIA	-7.6%
US- S&P 500	-0.7%	S.AFRICA	8.1%	ITALY	29.5%	INDONESIA	-8.3%
GERMANY	-1.7%	AMSTERDAM	6.1%	AMSTERDAM	28.5%	JAPAN	-10.4%
SWITZERLAND	-1.9%	AUSTRALIAN	5.9%	DENMARK	28.4%	**MSCI World**	**-10.4%**
FRANCE	-2.5%	US-NASDAQ	5.9%	GERMANY	28.2%	THAILAND	-10.8%
MSCI World	**-2.7%**	**MSCI World**	**5.3%**	SINGAPORE	27.9%	SWITZERLAND	-11.2%
RUSSIA	-4.3%	JAPAN	3.8%	BELGIUM	25.7%	TAIWAN	-11.2%
SOUTH KOREA	-5.2%	GERMANY	3.3%	TAIWAN	25.6%	SINGAPORE	-11.6%
AMSTERDAM	-6.5%	FRANCE	1.8%	THAILAND	25.1%	HONG KONG	-13.8%
HONG KONG	-7.1%	SOUTH KOREA	1.2%	BRAZIL	24.7%	AMSTERDAM	-14.7%
PHILIPPINES	-8.4%	HONG KONG	0.3%	FRANCE	24.5%	FRANCE	-15.2%
INDIA	**-9.3%**	**INDIA**	**-0.7%**	PHILIPPINES	24.0%	MEXICO	-15.5%
UK	-10.1%	SINGAPORE	-2.1%	JAPAN	23.4%	AUSTRALIAN	-16.1%
AUSTRALIAN	-12.6%	UK	-4.1%	SPAIN	22.4%	PHILIPPINES	-17.0%
TAIWAN	-13.9%	SPAIN	-4.9%	MALAYSIA	20.9%	UK	-17.5%
MEXICO	-14.7%	DENMARK	-5.0%	INDONESIA	20.6%	DENMARK	-17.6%
SPAIN	-16.6%	BELGIUM	-5.4%	**MSCI World**	**20.1%**	SPAIN	-19.0%
SINGAPORE	-19.9%	PHILIPPINES	-6.8%	US- S&P 500	19.4%	ITALY	-20.2%
INDONESIA	-21.2%	MALAYSIA	-6.9%	SWITZERLAND	19.2%	SOUTH KOREA	-20.4%
THAILAND	-21.6%	SWITZERLAND	-9.3%	UK	17.9%	GERMANY	-22.2%
MALAYSIA	-21.8%	TURKEY	-9.9%	AUSTRALIAN	15.9%	BELGIUM	-22.3%
S.AFRICA	-22.3%	MEXICO	-11.4%	CHINA	13.6%	S.AFRICA	-23.4%
TURKEY	-33.0%	ITALY	-13.2%	MEXICO	13.4%	CHINA	-28.7%
BRAZIL	-42.0%	CHINA	-18.0%	RUSSIA	0.5%	TURKEY	-43.4%

	CY 2019		CY 2020
RUSSIA	44.9%	US-NASDAQ	16.3%
US-NASDAQ	37.9%	DENMARK	13.2%
US-S&P 500	28.8%	TAIWAN	-2.0%
SWITZERLAND	28.1%	SWITZERLAND	-3.3%
BRAZIL	26.9%	CHINA	-3.6%
TAIWAN	25.9%	US-S&P 500	-4.0%
ITALY	25.7%	JAPAN	-4.9%
MSCI World	**25.2%**	**MSCI World**	**-6.7%**
FRANCE	23.9%	GERMANY	-6.8%
DENMARK	23.5%	AMSTERDAM	-7.3%
GERMANY	23.0%	SOUTH KOREA	-7.4%
AMSTERDAM	21.5%	MALAYSIA	-9.8%
CHINA	20.8%	TURKEY	-11.6%
JAPAN	19.8%	HONG KONG	-12.9%
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THAILAND	9.7%	**INDIA**	**-20.2%**
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MEXICO	8.9%	SINGAPORE	-22.5%
PHILIPPINES	8.2%	UK	-23.7%
SINGAPORE	6.5%	SPAIN	-24.2%
INDONESIA	4.4%	INDONESIA	-24.3%
SOUTH KOREA	3.8%	MEXICO	-29.0%
MALAYSIA	-5.0%	BRAZIL	-39.5%

Coming back to the history of how funds are conceived and marketed, the maximum number of technology funds came out during the tech boom of 1998-2000. Similarly emerging market funds were all the rage towards the end of emerging-market boom of 2004-7.

Both these hotly marketed themes ended badly within 1 or 2 years!

The problem, in short, is that, Fund Houses are always forcing you to chase the most popular market.

In investing, what's popular is usually already obsolete.

As a lay investor, by the time you hear of and are convinced of a particular investment story in a certain market, the story is likely to be almost over.

What is required is investment which is truly Global, in that is it is across countries/Markets and asset classes.

Plus, as we said earlier, the Asset allocation itself has to be both tactical and dynamic.

What that means as the situation changes the Asset allocation has to change. Asset allocation basically means your investment pie chart is strategically diversified across various available asset classes.

If your asset manager does not have the mandate or most importantly, skills to do that you will see losses. Without any doubt.

There is absolutely no doubt that every investor must diversify globally.

But the key learning we have in our 25 years of doing Global investing and managing global assets across the world, is: be very, very careful, and do proper deep analysis before you venture out.

And ask very tough questions of whoever is advising you on global investing.

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