PRESSMAN
PRESS CLIPPING

Publication	Money Times
Language	English
Edition	Mumbai
Date	5-11 March, 2018

Client: Samvitti Capital Pvt Ltd

MONEY TIMES
BUSINESS & INVESTMENT WEEKLY

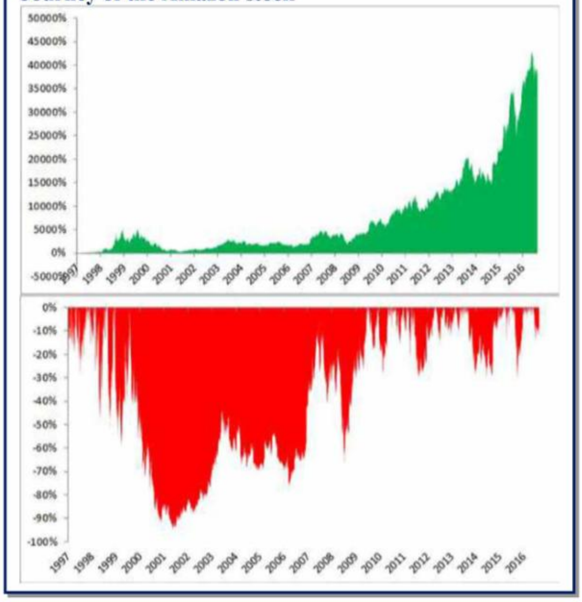
Monday, 5 – 11 March 2018

BUILDING CONVICTION: THE KEY TO SUCCESSFUL INVESTING

By Prabhakar Kudva

The above incredible charts shared by a prominent researcher at a leading International Wealth Management firm, shows Amazon's path to 38,000% return - filled with heartache, despair, and nausea.

Journey of the Amazon stock



In the Indian context, too, there are several examples. My friend and fellow blogger, wrote about how he faced multiple 50% drawdowns (reductions) in Muthoot Capital.

This stock has fallen ~50% more than twice in just five years. In fact, after kissing Rs.261 on the 23rd of October 2014, it not only collapsed by 50%, but took another two years until October 2016 to regain lost ground and made a new high around Rs.330. And just when investors heaved a sigh of relief, it collapsed once again to Rs.202, post demonetisation.

After another year, the stock is trading closer to Rs.700.

When i saw the Amazon chart and read about these examples, something hit me: *There is a huge difference between identifying a successful stock and making serious money from it. Just internalising this fact is the first step in fetching the big returns.*

All of us today have access to a lot of information-probably more than we would like. We spend most of our time looking for the new winners. We read about industry trends, technology disruptions, decipher management commentary and are fairly good at identifying promising businesses. What's more, we're probably right too. But our analysis and judgement apparently does not guarantee us the returns we deserve. Why?

The market is built to shake us out, scare us out or bore us out. How does one ensure that once a good business has been identified and bought into, we are able to participate in most of the returns that the stock generates?

In true style of one of the prominent investors of our times, i think the most important thing is: **Building Conviction.**

Without conviction, we'll sell-off in the first 25% drawdown.

Without conviction, we'll sell on the first 100% profit.

Without conviction, we'll sell on every second news item.

Without conviction, we'll not allocate meaningfully.

Without conviction, the market will never allow us to make the big returns.

What then, are the sources of conviction?

Conviction about the business: you truly know which events matter to the business and which do not.

Conviction about the management: *the standard Buffett test: demonstrated record of integrity, energy and intelligence.*

Conviction about yourself: *the temperament to withstand drawdowns, not get shaken, scared or bored.*

Conviction about the capital: *you ensure that the capital you have employed is patient in nature.*

Conviction about the market: *that the market long-term is a weighing machine, not a voting machine.*

All these have to be built painstakingly over years of ownership. If you want to make the big returns, just reading annual reports or conference calls won't make it. It's just the first step. You have to go through several ups and downs when your conviction in each of these categories will be tested by the market before it allows you to go home with that ten or fifty bagger.

Conviction > Ideas.

In this information age of WhatsApp and Twitter, ideas and research have become a commodity. I am not saying this in a negative sense. We have to be grateful to be living in an age where we get information about so many businesses on a platter. The other day, I was browsing through an aggregated list of small-caps identified by some smart investors. Then I read about how one of the prominent investors bought into KRBL and Everest Industries. Whatsappgroups are full of extremely smart investors telling us about their ideas and thought processes.

They are several investing ideas out there for the asking. We all know what needs to be bought, we just don't know how to carry them - and therein lies all the return.

Conviction doesn't guarantee returns especially if you're convinced about the wrong ideas. It only allows you to do full justice to your correct judgements-and hopefully more than make up for all the bad ones.

The next time you like a company/mutual fund/advisor/strategy ask yourself if you have or are willing to do the work to build enough conviction to hold on to them through several market and business declines which are a given. If not, you may as well not bother.

(**Disclosure**: This is purely an opinion of the author and nothing in this article should ever be considered to be advice, research or an invitation to buy or sell any securities.)

Prabhakar Kudva is a co-Founder & Director of Samvitti Capital Pvt. Ltd, an asset management boutique focused on the Indian capital markets.