

From the Fund manager's desk...

What are you waiting for?

The best time to pick equities is when one is surrounded by extreme pessimism. That's exactly the kind of magic wand you need to wave to create wealth. The current dire situation is no different, where people are painting gloomy pictures with the brush of defeatism.

Historically, it has happened every single time that the stock market comes out stronger after every doomsday event, created by war, politics, financial turbulence or medical adversity. **I repeat "every single time".**

We need to trust this rhythmic pattern and act accordingly.

Mark Twain had rightly said *history never repeats itself, but it rhymes!*

Post Dot com bust reversion



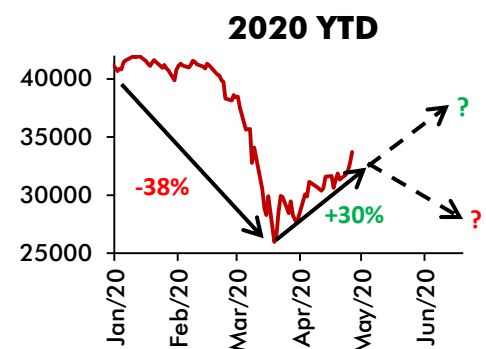
Source: Ambit GPC

Post Global financial crisis reversion



Source: Ambit GPC

Post Covid reversion in longer term...



Source: Ambit Asset management, Data updated up to 30th April, 2020

Why not shop now? Already at 35% off!

People rush to shopping malls to grab their favorite brands when they go on sale but why not rush to buy great businesses (via stock) when available at huge discounts. Why is it so difficult to implement this simple strategy? **The answer lies in human psychology.** Fear and greed are the two biggest enemies of wealth creation. An Investor's return on investment is dependent on how she behaves in times of despair. Volatility is part and parcel of the capital market it should be viewed as a friend as it allows us to buy stocks at a bargain. (Ref below table)

Why should discount on branded goods be viewed differently from branded companies available on discount...?

Index	NIFTY 50	NIFTY Midcap 100	NIFTY Small cap 100
5 th May 2020	9270	12,900	3,923
YTD correction	-23%	-25%	-34%
These levels were last seen	1 March 2017	1 March 2016	1 April 2014
How long ago were these levels last seen?	3 yrs. 2 months	4 yrs. 2 months	6 yrs. 1 month

Source: Ambit Asset management, Updated as on 5th May, 2020

Any investor with a strong emotional quotient will be more successful in handling her reaction amid panic. **That's why it is said, investment is about 'Emotional Quotient' rather than 'Intelligence Quotient'.** How an investor behaves during these turbulent times creates all the difference!

This is the time to ACT! Don't waste time in "timing"...

Markets give these kinds of opportunities once or twice in a decade. No doubt it is easier said than done. It is very tough, if one tries to gauge where the macroeconomic trend settles or how the stock market behaves in the foreseeable future. **No one knows where the market will trade tomorrow or a year from now. I repeat no one! In the near term markets behave irrationally.** It is a futile exercise to time the un-timable. Ask those so called timers if they could time this? (Ref table below)

Mini Case: Negative news flow rose but so have markets strangely- in the short term markets can be un-timable and unpredictable

Negative news flow	23rd Mar	30th Apr	Change
Intl confirmed Covid cases	332,000	~33,00,000	~10x
India Covid cases	468	35,043	75x
India Covid deaths	9	1154	Large
Sensex levels	25,981	33,542	~30%

Source: Ambit Asset management

The best way is to be pragmatic and take a rational stand with a long term horizon. We understand that this unprecedented lockdown will have a big dent on the economy and corporate earnings. The world will change drastically from pre to post COVID19 however if we think deeper, realism of life and its fabric won't change much. Capitalism, human urge to evolve & grow will only get stronger. Humans will not settle for less and the urge to consume and to push forward will continue!

Hence, we need to identify the **"Good & Clean" businesses, who exhibit three simple traits (Refer Appendix for assessment of our portfolios):**

- 1. Have strong solvency** (high cash, low debt, strong balance sheet), which empowers them to survive these tough times.
- 2. Show traits of adaptability.** Beyond **"survival of the fittest"**, it will be **"survival of the quickest"**. Ability to respond in a crisis makes all the difference.
- 3. Have the propensity to thrive, after survival.** One theme which will play out post COVID19, will be that the **"Big will get Bigger"**. Businesses that are market leaders currently will immensely benefit from consolidation.

If the business shows these three indispensable traits, the earnings growth and return ratios (key determinant of stock price) would gradually fall in place.

Hence, collectively all the factors discussed above make it a compelling and opportunistic time to invest in **"Good & Clean" businesses.** If you wait 6-12 months you may get clarity but you won't get these attractive valuations which already factor in a lot of the pessimism.

Arguably, the market may move both ways convincingly, with unseen volatility in the coming months. Investors should however not try to do bottom fishing, as interestingly catching the bottom literally means that from the day after you invest-the market will begin continuously moving up! This approach is not sound and can lead to missing out on the opportunity of a life time! The risk reward today is in favor for investors from here on. Also it is important to keep in mind that long term horizon is the most important determinant to wealth creation. **"Real wealth is created by time spent in the market rather than timing the market!"**

The most pragmatic approach is to identify the strong **"Good & Clean" businesses/franchises** and start investing over the next month or two in a calibrated manner. Don't miss the opportunity of a lifetime!

We are living in the era of **"Romantic Consumerism"**

-Yuval Harari coined it in his path breaking book: Sapiens- A brief history of mankind

"The biggest wealth is created when things move from worse to bad"

- Anthony Bolton

Appendix

OUR PORTFOLIO COVID 19 SURVIVE + THRIVE ASSESSMENT:

Ambit Coffee can PMS

	SURVIVE		THRIVE	
	Risk	Stocks	Likely to capitalize on opportunity	Stocks
GREEN	Low	13	Very well placed	13
AMBER	Average	0	Reasonably placed	0
RED	Above average	0	Slower recovery	0
	LOW	13	GREEN	13

Source: Ambit Asset management, Note: Survive code assesses risk and ability to withstand headwinds for 6 months, Thrive code assesses ability of the business to perform over the coming 2-3 quarters

Ambit G&C midcap PMS

	SURVIVE		THRIVE	
	Risk	Stocks	Likely to capitalize on opportunity	Stocks
GREEN	Low	14	Very well placed	15
AMBER	Average	4	Reasonably placed	2
RED	Above average	1	Slower recovery	2
	LOW/AVG	19	GREEN	19

Source: Ambit Asset management, Note: Survive code assesses risk and ability to withstand headwinds for 6 months, Thrive code assesses ability of the business to perform over the coming 2-3 quarters

Ambit EG PMS

	SURVIVE		THRIVE	
	Risk	Stocks	Likely to capitalize on opportunity	Stocks
GREEN	Low	10	Very well placed	8
AMBER	Average	5	Reasonably placed	7
RED	Above average	1	Slower recovery	1
	AVG	16	GREEN	16

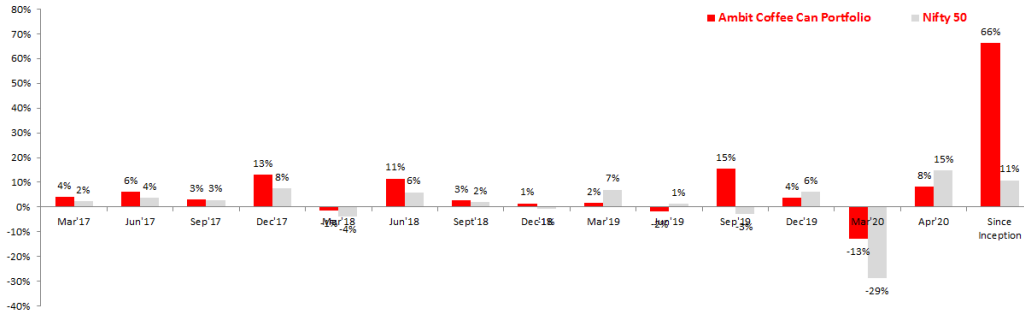
Source: Ambit Asset management, Note: Survive code assesses risk and ability to withstand headwinds for 6 months, Thrive code assesses ability of the business to perform over the coming 2-3 quarters

For detailed analysis of the above exercise kindly refer to Newsletters for the Month of April & May for our in-depth Survive and Thrive assessment respectively.

OUR PORTFOLIO PERFORMANCE:

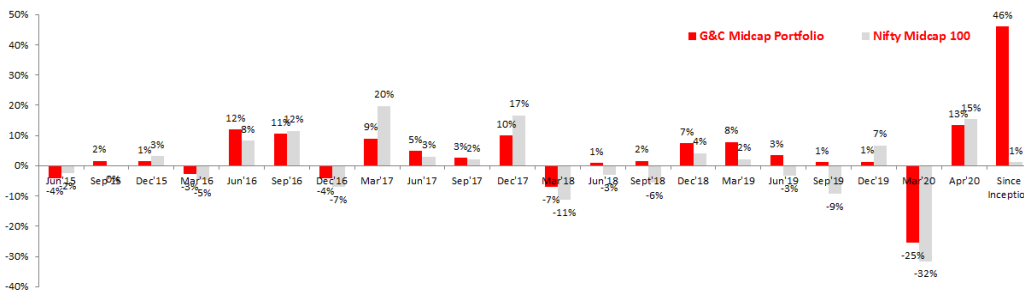
All of our strategies, namely, Coffee can portfolio; Good & Clean midcap fund and Emerging giants fund have protected capital when markets have been nervous. Interestingly these strategies are also the quickest to recover when sanity returns, resulting in lower drawdowns and better returns over the long term.

Ambit Coffee can portfolio



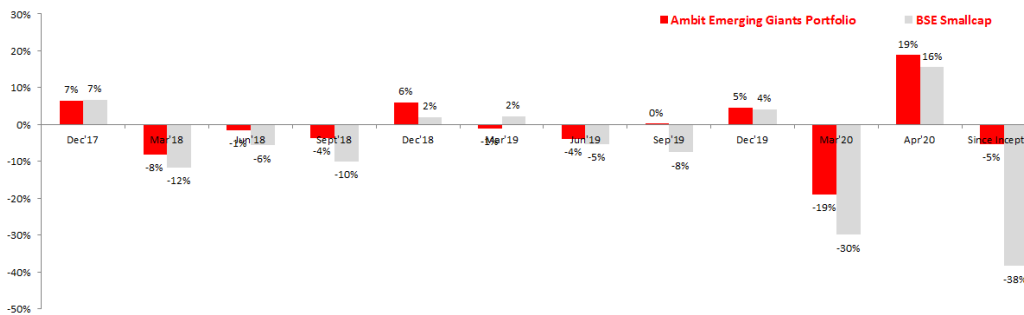
Source: Ambit Asset management

Ambit Good & clean portfolio



Source: Ambit Asset management

Ambit Emerging portfolio



Source: Ambit Asset management

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