

# MONTHLY NEWSLETTER

AUGUST 2021

## The Secret Ingredient in Investing: A Study of Stoicism



We keep trying to bring you new ways to think through investing to make it easy to follow, relatable and something which can be mastered rather than a complex and misunderstood den of jargon, risk and volatility. Warren Buffet famously said “You don’t need to be a rocket scientist (to be a successful investor.) It is not a game where the guy with the 160 IQ beats the guy with 130 IQ.” Despite this characterisation surely there must be something which differentiates the Men (women) from the boys (girls)? The short answer is of course there is that is what we call EQ.

Investing is an understanding of human behaviour (market movement, judging a management) and investing decision is also impacted by human behaviour (yours/ours). Today we will try and understand the latter through a study of stoicism.

### **As swift as stable**

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Long-term stability or agility in service?

What would you rather choose, when it comes to investing your hard-earned money?

With Ambit Asset Management, you won’t have to.

While it uses its deep-dive research and disciplined approach to lend stability to your portfolio, its strong digital outreach ensures an agile and transparent service.

The result?

Consistent growth with an always-available service.

Now, that’s what ‘acumen at work’ helps you achieve.

# A QUICK INTRODUCTION TO STOICISM

Stoicism (or the ancient Greek Philosophy) is defined as the endurance of pain or hardship without the display of feelings and without complaint

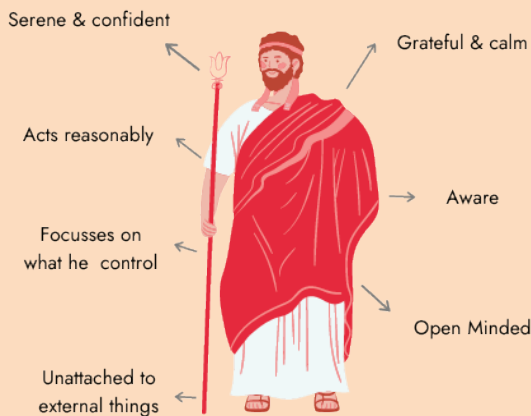
The origins of Stoicism can be traced back to a wealthy merchant in Athens- Zeno of Citium who lost all his wealth to a sudden shipwreck in 300 BC. This taught him a valuable lesson because his reaction to the outcome was surprisingly different than usual - with a steady mind having control over his actions. Rather than panicking, he remained calm.

## I. VIRTUES OF STOICISM

- 1. Wisdom:** Includes excellent deliberation, good judgment, perspective, good sense
- 2. Courage:** Includes bravery, perseverance, authenticity (honesty), and confidence.
- 3. Self-Discipline/Temperance:** Includes orderliness, self-control, forgiveness, humility.

Although stoicism is today associated with a lack of feelings and ability to not let pain or pleasure have a large impact on you it is much more than that alone. To understand it better let us look at some more concepts relevant to stoics.

## II. CHARACTERISTICS OF A STOIC BASED ON THE ANCIENT PHILOSOPHY



## III. STOICS KEEP IT SIMPLE AND FOCUS ON WHAT IS UPTO US

✔ Upto to US	✘ Not upto to US
Thoughts	(Everything Else)
Judgements	Body
Actions	Death
	Outside Events
	Reputation
	Health
	Wealth
	Job
	Other peoples' actions

## IV: TURN OBSTACLES INTO OPPORTUNITIES –

**Events** are NOT upto to US

**Judgement** IS upto to US

**Obstacle**  
'This is horrible. My life is over'



**Opportunity**  
'Great! Now I can practice patience, endurance and calmness

"If you are pained by any external thing, it is not this thing that disturbs you, but your own judgment about it. And it is in your power to wipe out this judgment now."  
– Marcus Aurelius

## V: STOIC PREMEDITATION: VISUALIZE AND

### A BAD EVENT OCCURS

Not thought about it before

It's horrible and you are devastated

**ACTION:** Lie down & cry a lot & give up



Visualised before

It's still horrible but you are prepared

**ACTION:** Stay calm & choose the best response



# ...CONFUSED ON HOW IT PRACTICALLY APPLIES TO INVESTING?

Let's read through the above once again... with an Investing lens

## I. VIRTUES OF STOICISM

**Wisdom:** Includes excellent deliberation, good judgment, perspective, good sense

Take decision in a logical informed manner with special emphasis on research. It is important to handle good and bad times with equanimity (allows good sense and good judgment).

"When there are multiple solutions to a problem, choose the simplest one."- John C. Bogle

**Courage:** Includes bravery, perseverance, authenticity (honesty), and confidence.

Persist and Resist (short term sector rotation, show long term historical trend)

"Cash combined with courage in a time of crisis is priceless."- Warren Buffet

"Even the intelligent investor is likely to need considerable will power to keep from following the crowd."-Benjamin Graham

"Accepting losses is the most important single investment device to insure safety of capital."-Gerald M. Loeb

**Self-Discipline/Temperance:** Includes orderliness, self-control, forgiveness, humility.

Do more talk less, focus on developing and sticking to a time tested investment process (orderliness). Stay calm and committed (self-control) to the process and be humble and course correct when necessary (forgiveness, humility).

"A lot of people with high IQs are terrible investors because they have got terrible temperaments"-Charlie Munger

"Individuals who cannot master their emotions are ill-suited to profit from the investment process."-Benjamin Graham

"If we become increasingly humble about how little we know, we may be more eager to search."-John Templeton

**Justice:** Includes good-heartedness, benevolence, public service, fair dealing.

As an investor fair dealing includes not taking unnecessary risks that might jeopardize your investment goal or do justice to the investment objective you are trying to meet.

As a fund manager or one managing the money of others Justice includes making decisions with your heart in the right place, dealing fairly and transparently, working in the interest of your client and not self-interest and acting as a guardian of the fund's stated and communicated mandate.

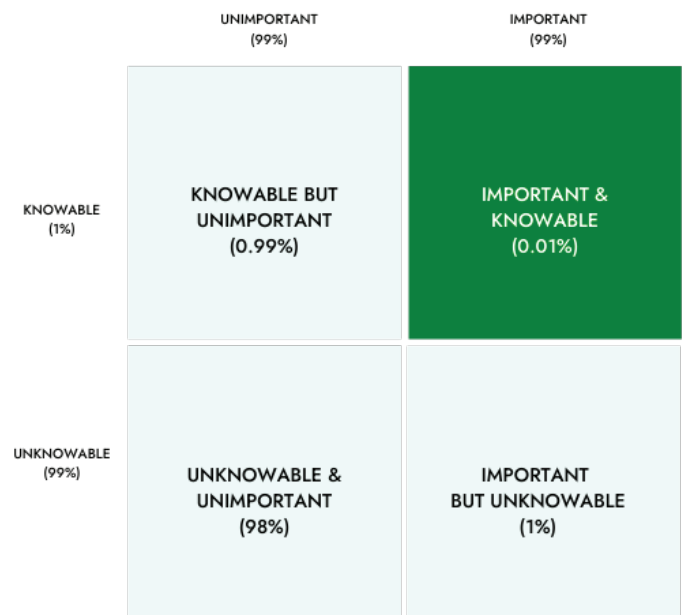
"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." -Warren Buffet

## II. Characteristics of a Stoic...not unlike that of an Investor (pictured below)



Source: Ambit Asset Management

## III. Stoics keep it simple and focus on what is upto us...so should investors focus on knowable and important



Source: Ambit Asset Management

**IV: Turn Obstacles into Opportunities – Perception Is Key:** In Markets every adverse event can be converted into a buying opportunity too when the pessimism may outweigh reality. An astute investor needs to stay calm, composed and prepared to act.

Exhibit A: With Obstacles that have had negative impacts through history have been followed by positive returns...

1993-2001		2001-2009		2009-2021	
Year	Event	Year	Event	Year	Event
Mar-93	Bombay blasts	May-02	Communal riots	Jan/ Sep-16	Pathankot/ Surgical strikes 2
Jun-96	Vajpayee government falls	May-04	BJP loses elections	Nov-16	Demonetization
May-98	Nuclear tests	Nov-08	26/11 attacks	May/Jun-17	RERA/GST
May-99	Kargil war	Sep-08	Lehman Brothers	Mar-20	COVID-19
				Apr-21	COVID-19 (2 <sup>nd</sup> wave)

Exhibit B: Be it in 1993-2001 where many small dips gave opportunities for huge returns

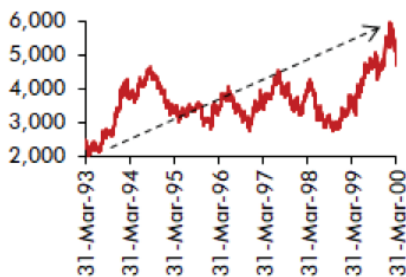


Exhibit C: Or in 2001-2009 markets soared right upto 2008 GFC weathering many big events along the way.

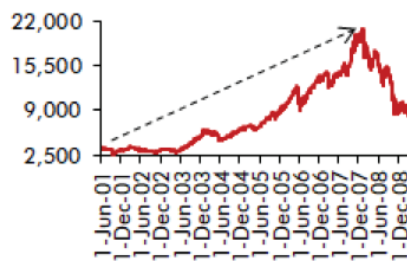
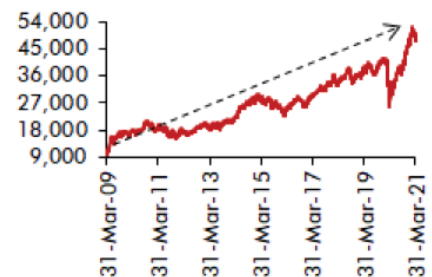


Exhibit D: 2009-2021 has been no different...stay calm and invest for the long term when crisis strikes mastering the way of the stoic



Source: Ambit Asset Management

V (A) : Stoic premeditation: Visualize and prepare for negative outcomes. Like we did last year for our portfolios (Ambit Coffee Can portfolio) through our survive+thrive analysis

Color Code	Stocks	Likely to capitalize on opportunity
GREEN	13	Very well placed
AMBER	0	Reasonably placed
RED	0	Slower recovery
<b>Total</b>	<b>13</b>	<b>GREEN</b>

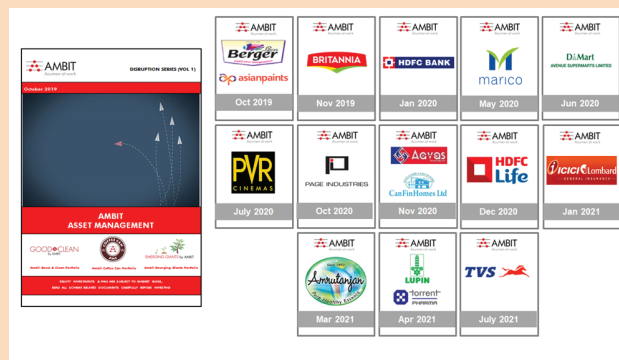
V (B): Stoic premeditation: Visualize and prepare for negative outcomes...like we did last year for our portfolios (Ambit Good & Clean Midcap portfolio) through our survive+thrive analysis

Color Code	Stocks	Likely to capitalize on opportunity
GREEN	15	Very well placed
AMBER	2	Reasonably placed
RED	2	Slower recovery
<b>Total</b>	<b>19</b>	<b>GREEN/ AMBER</b>

V (C) : Stoic premeditation: Visualize and prepare for negative outcomes...like we did last year for our portfolios (Ambit Emerging Giants Small Cap portfolio) through our survive+thrive analysis

Color Code	Stocks	Likely to capitalize on opportunity
GREEN	8	Very well placed
AMBER	7	Reasonably placed
RED	1	Slower recovery
<b>Total</b>	<b>16</b>	<b>GREEN/ AMBER</b>

V (D): Stoic premeditation: Visualize and prepare for negative outcomes in a way we visualize the disruptions and so we ensure we are prepared to act when they come



Source: Ambit Asset Management, Note: This was based on a study conducted last April as an example on how we went about a portfolio risk assessment based on a Survive and Thrive analysis. This data is not to be looked at from an as on date health of the portfolio

Source: Ambit Asset Management

## How we imbibe stoicism in our process for your benefit

In keeping with the **Virtues Of Stoicism** our team has continuously aimed to deliberate and exercise good judgment (**Wisdom**) which has helped in delivering constant outperformance since inception (Refer to Exhibit 1) by selection of companies with strong long term traits while avoiding the flavor of the season like cyclicals, in trend stocks, very short term opportunities (Refer to Exhibit 4). We spent our time and still do focusing on what is **Knowable & Important**.

The team has exercised **Courage** in evaluating new ideas in tough times to ensure best interest of the portfolio and cut off parts of the portfolio which were either return dilutive or creating additional risk to clients. (Refer to Exhibit 2).

We steadfastly remain committed to (**Self-Discipline/Temperance**) a detail oriented and time tested process to evaluate portfolios and

**Exhibit 1: All our 3 portfolios have outperformed the benchmark since inception**

Inception Date	Portfolio	CAGR	Comparable Benchmark	CAGR return during same period
Mar 2017	Ambit Coffee Can Portfolio	21.7%	Nifty 50	13.7%
Mar 2015	Ambit Good & Clean Midcap Portfolio	15%	Nifty Midcap 100	12.2%
Dec 2017	Ambit Emerging Giants Portfolio	19.4%	BSE Small Cap	11.4%

Source: Ambit Asset Management

individual companies based on a 4 step approach (Refer to Exhibit 3) and spend time to reflect on our Hits & Misses so we keep learning while staying humble (Ref to our Hits & Miss Newsletter). A combination of the above qualities has helped us **turn obstacles into opportunities** (investing calmly and continuously last March and ever since based on the opportunities available) thus far and should continue to help all those (ourselves included) who appreciate and imbibe the values of stoicism in their investment process.

Finally we seek to be honest, transparent and accessible with our interactions and look to deliver on our portfolio mandates and objectives as laid out while serving our clients best interest. To ensure intellectually honest process we also rely on a structured investment approach, deep research, an investment committee guiding our decisions and ensure our returns/processes are audited/updated periodically. (**Justice**)

**Exhibit 2: Higher Sharpe Ratio/ Lower SD across portfolios a result of prudent Risk management**

Product/ Benchmark	Standard Deviation	Max. Month-end Drawdown	Sharpe Ratio
Ambit Coffee Can Portfolio	16%	-17%	0.93
Nifty	19%	-29%	0.35
Ambit Good & Clean Midcap Portfolio	19%	-30%	0.41
Nifty Midcap 100	23%	-45%	0.23
Ambit Emerging Giants Portfolio	27%	-27%	0.47
BSE Small Cap	29%	-50%	0.15

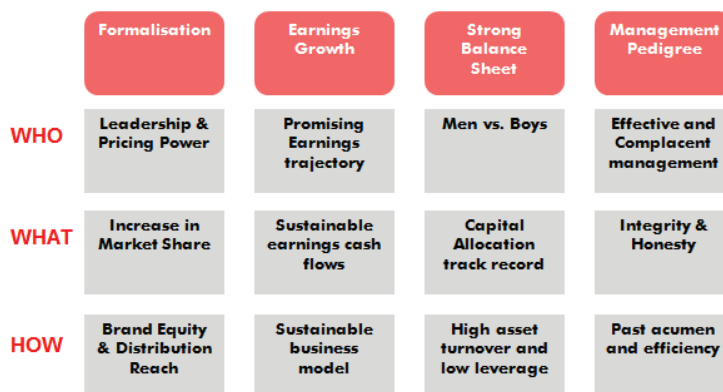
Source: Ambit Asset Management, Sharpe ratio is a sign of risk adjusted returns-higher number indicates better risk adjusted return

**Exhibit 3: Good return is an outcome of consistent good process and long term focus**



Source: Ambit Asset Management

**Exhibit 4: Four-pillars of a sustainable long-term portfolio**



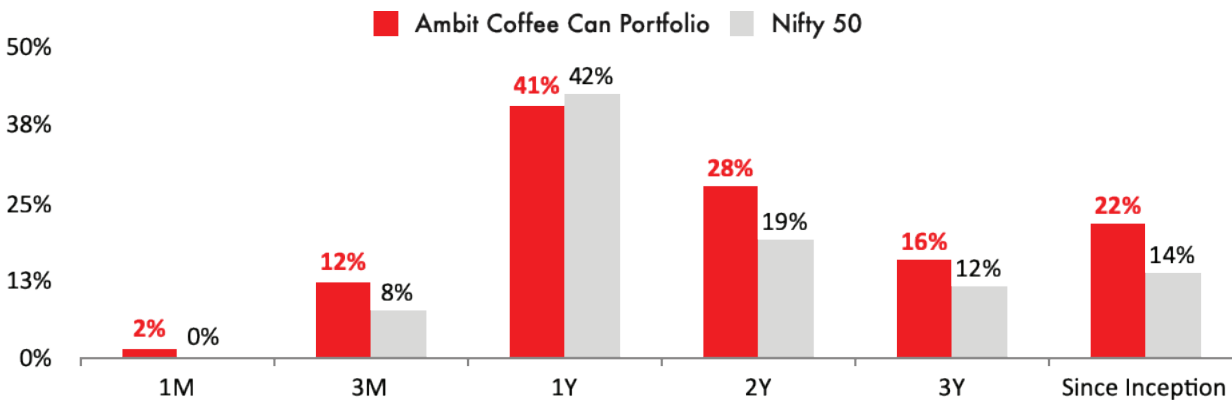
Source: Ambit Asset Management

**AMBIT COFFEE CAN PORTFOLIO**

At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail & consumption oriented sectors. The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages in core businesses despite being faced by disruptions at regular intervals. As the industry

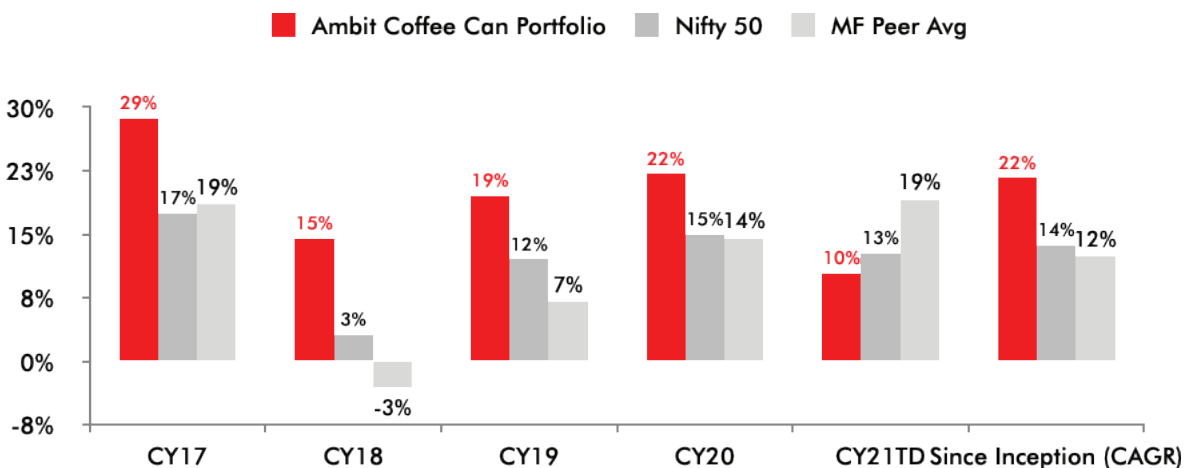
evolves or is faced by disruptions, these competitive advantages enable such companies to grow their market shares and deliver long-term earnings growth.

Exhibit 5: Ambit Coffee Can Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 31st July, 2021; All returns are post fees and expenses; Returns above 1 year are annualized; Note: Returns prior to Apr'19 are returns of all the Po\ol accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

Exhibit 6: Ambit Coffee Can Portfolio calendar year performance



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 31st July, 2021; All returns are post fees and expenses; Returns above 1 year are annualized; Note: Returns prior to Apr'19 are returns of all the Po\ol accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

**AMBIT GOOD & CLEAN MIDCAP PORTFOLIO**

Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. Ambit's proprietary 'forensic accounting' framework helps weed out firms with poor quality accounts, while our proprietary 'greatness' framework helps identify efficient capital allocators with a holistic approach for consistent growth. Our focus has been to deliver superior risk-adjusted returns with as much focus on lower portfolio drawdown as on return generation. Some salient features of the Good & Clean strategy are as follows:

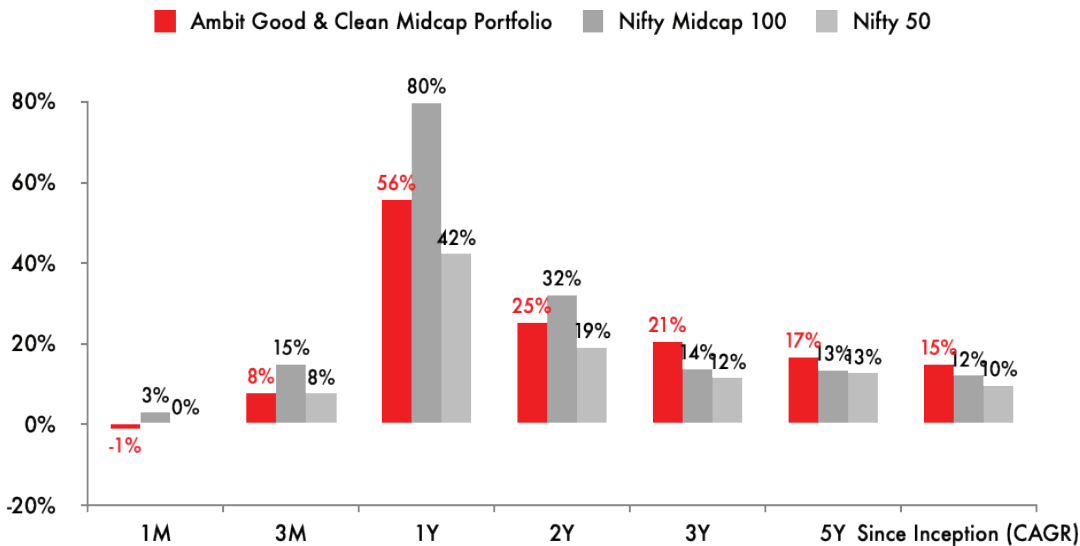
Process-oriented approach to investing: Typically starting at the largest 500 Indian companies, Ambit's proprietary frameworks for assessing accounting quality and efficacy of capital allocation help

narrow down the investible universe to a much smaller subset. This shorter universe is then evaluated on bottom-up fundamentals to create a concentrated portfolio of no more than 20 companies at any time.

Long-term horizon and low churn: Our holding horizons for investee companies are 3-5 years and even longer with annual churn not exceeding 15-20% in a year. The long-term orientation essentially means investing in companies that have the potential to sustainably compound earnings, with this compounding earnings acting as the primary driver of investment returns over long periods.

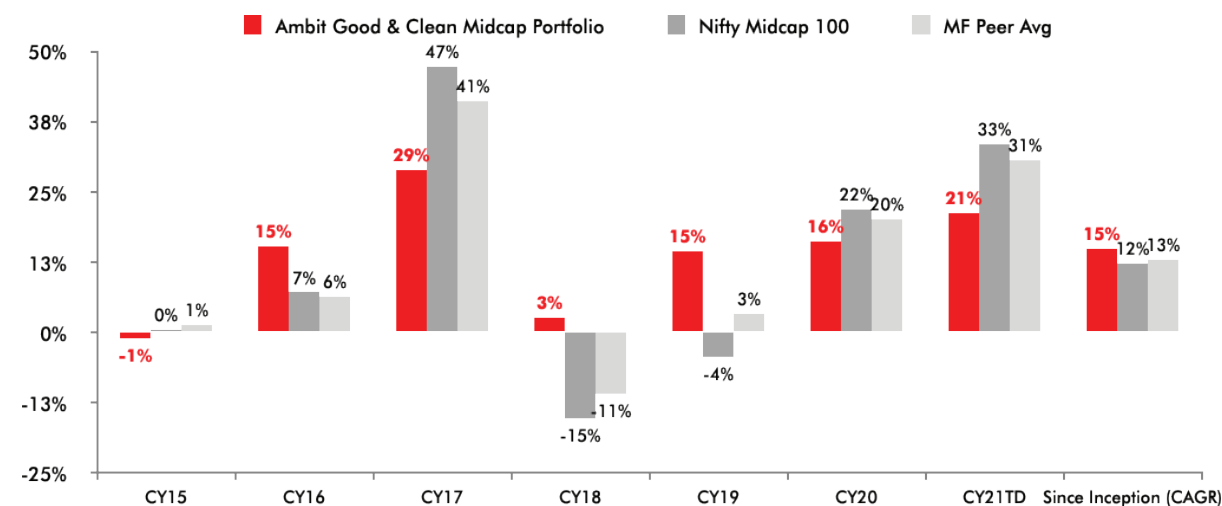
Low drawdowns: The focus on clean accounting and governance, prudent capital allocation, and structural earnings compounding allow participation in long-term return generation while also ensuring low drawdowns in periods of equity market declines.

Exhibit 7: Ambit Good & Clean Midcap Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 31st July, 2021; All returns above 1 year are annualized. Returns are net of all fees and expenses

Exhibit 8: Ambit Good & Clean Midcap Portfolio calendar year performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 31st July, 2021; All returns above 1 year are annualized. Returns are net of all fees and expenses

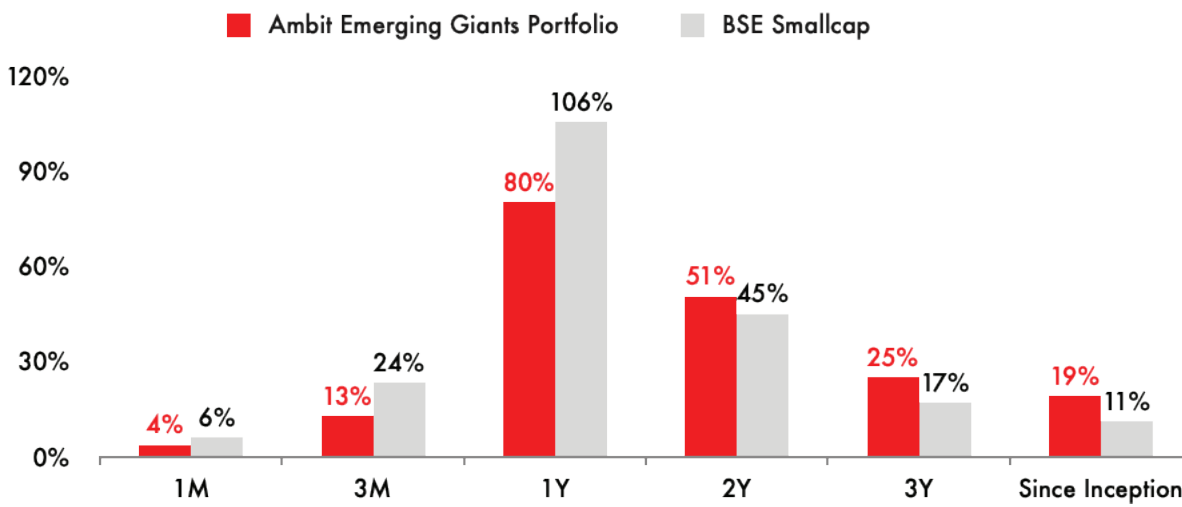


**AMBIT EMERGING GIANTS**

Smallcaps with secular growth, superior return ratios and no leverage. Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market caps less than Rs. 4,000cr. These companies have excellent financial track records, superior underlying fundamentals (high RoCE, low debt) and ability to deliver healthy earnings growth over long periods of time. However, given their smaller sizes these companies are not well discovered, owing to lower

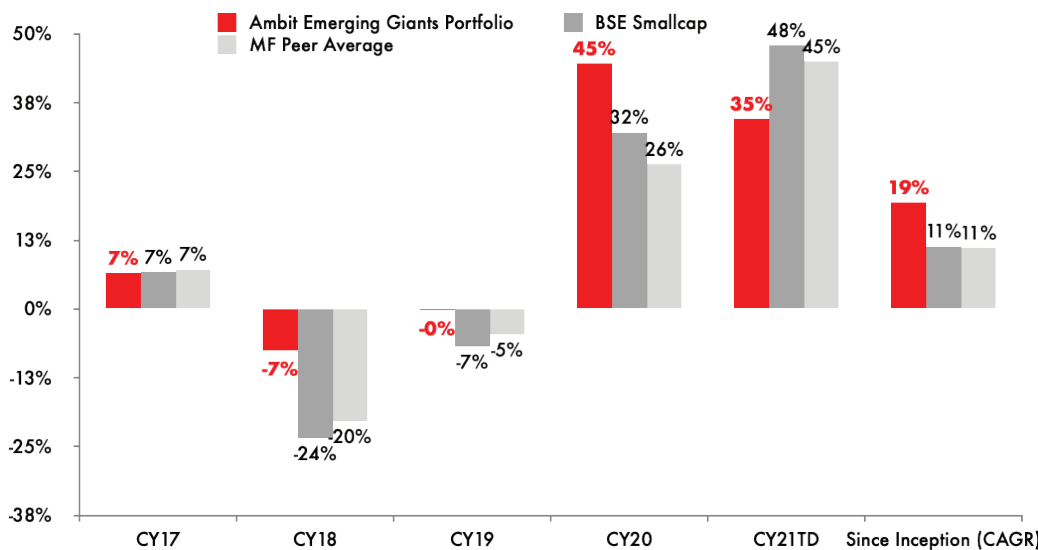
institutional holdings and lower analyst coverage. Rigorous framework-based screening coupled with extensive bottom-up due diligence lead us to a concentrated portfolio of 15-16 emerging giants.

Exhibit 9: Ambit Emerging Giants Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 31st July, 2021; All returns above 1 year are annualized. Returns are net of all fees and expenses

Exhibit 10: Ambit Emerging Giants Portfolio calendar year performance



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 31st July, 2021; All returns above 1 year are annualized. Returns are net of all fees and expenses

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