THREE DIFFERENT STORIES ON THE SAME PAGE

Sanjeev Panda

This is a true story of three musketeers – Alpha, Bravo and Charlie. It all began around a decade ago amidst the gloom and doom of the global financial crisis. The financial world was coming to terms with the sharp losses that were witnessed in all asset classes following the collapse of the Lehman Brothers. The three musketeers, then working in the equity research department at a brokerage house, had similar goals of achieving financial freedom through investing in the equity markets. Thus, they saw an opportunity in this adversity.

The general risk aversion across the globe had resulted in a sharp fall in the share price of all businesses, both domestically and globally. The three musketeers, however, decided that this was an attractive opportunity to lay the foundation of their long-term goal of financial freedom. Thus, they set out on a quest to find the next 'big' stock idea. After some initial screening and a few rounds of discussions on some known businesses, the three shortlisted a company which looked like an attractive business as it had a healthy track record of generating over 30% earnings growth as well as returns on equity. While there was emerging competition from some of the well-established players, their limited channel checks suggested that the company not only had a stronger brand, but its products were also superior to the competition. Further, the company was making continued investments in strengthening its brand and product portfolio, while the competition was relatively dormant. Thus, this company was well run by a management that was able and competent. The valuation of 15-16x earnings also added to its attractiveness (while in hindsight, a 15-16x P/E looks cheap, this was a time when the overall market had dropped to a low double-digit P/E). With this background, the three musketeers decided to invest in this company.

As luck would have it, the stock opened around 4-5% higher the next day, despite a run up of around 8-10% in the previous 30 days. This was not the most pleasant experience for the prospective buyers, and one of the three musketeers - Alpha - decided to defer his purchase in anticipation of a price correction. Unfortunately, that absolute price level never came, even though the stock did see some correction over the ensuing months and years. Alpha was a sharp and intellectually curious analyst who had until then (and continues till date) made many successful investments. However, in that moment, he became a victim of anchoring bias, being fixated on the previous day's price, and missed out on an opportunity.

The remaining two musketeers – Bravo and Charlie – decided to go ahead with the investment despite the higher share price. However, while Bravo held on to his original shares for a decade, Charlie did something out of the ordinary. He kept buying meaningfully more shares at frequent intervals, even as the share price continued to rise higher than the original purchase price.

This then is the story of the three musketeers. All of them started with the same intentions, at the same time, and with similar capital. However, as the story unfolded over a decade, the outcome for all three was quite different. In order to get a perspective on how different the outcomes are, it is important that we understand what happened to the share price over the years. The company in question here is Page Industries and the shares have returned more than 45x (including dividends) over the last ten years (from November 2009). Thus, while Alpha missed out on this wonderful journey, Bravo multiplied his investment 45x. However, Charlie's disciplined approach made him the most amount of money, even as his rate of returns were lower than that of Bravo's. The following exhibit illustrates the returns of the three musketeers using hypothetical investment amounts and approximate prices.

Figure 1: Hypothetical Returns of the Three Musketeers

Date	Share Price	Amount Invested			Shares Bought		
		Alpha	Bravo	Charlie	Alpha	Bravo	Charlie
1-Nov-09	700	0	-10,000	-10,000	0	14	14
1-Nov-10	1,400			-15,000			10
1-Nov-11	2,500			-25,000			10
1-Nov-12	3,500			-50,000			14
1-Nov-13							
1-Nov-14							
1-Nov-15							
1-Nov-16							
1-Nov-17							
1-Nov-18	30,000		420,000	1,440,000	0	14	48
XIRR		**0.0%**	**51.4%**	**45.8%**			
Capital Multiplier		**0.0**	**42.0**	**14.4**			

Note: Negative amounts denote capital investments, whereas positive amounts denote capital returns.
Source: Tamohara

The three musketeers and their different stories on the same investment – that of Page Industries – have some important lessons for us investors. Some of these learnings are:

A. Catch them early, catch them young**:** As Christopher Mayer says in his book, *100 Baggers*, "Start with acorns, wind up with oak trees. Start with oak trees, and you won't have quite the same dramatic growth. It may seem obvious, but it's important." Multibaggers, usually, are relatively smaller companies, with long runways ahead. Starting early and catching them young tilts the advantage in your favor.

B. Load up the truck when it rains gold**:** Best said in the words of Mr. Buffett, "Seize great opportunities and load up the truck. Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble." Wiser in hindsight, Page was a rare opportunity (not only for its stock price performance but also its high returns and compounding history). It was worth loading up the truck or rather trucks!

C. Think Big**:** When you come across a sound business with great growth opportunities and above average returns on capital, do not fret about saving a few percentage points. This is not to say that investors should buy at any price, however, they should resist the temptation of buying lower so long as they see a reasonable upside from the current price. More importantly, investors should not shy away from averaging up their investments so long as the gap between price and value remains in their favor. In short, don't be anchored to your purchase price. We have written about averaging up in this note.

D. Lollapalooza**:** When you have a long investment horizon, and you invest in sound businesses, you often experience the 'Lollapalooza Effect'. In simple words, the Lollapalooza Effect is an outcome which is far bigger than the sum of the parts. Remaining invested in Page Industries, the musketeers witnessed not just continuity of growth and enhancement in profitability, but also a gradual improvement in the balance sheet. This led to significant cash flow generation and an improvement in the return ratios from the 30s to the 50s. Consequently, the P/E multiple expanded from 15x to 60x. Thus, in addition to the earnings, a large part of the returns was also a result of re-rating of the stock. This is something that an investor with a shorter investment horizon would not have witnessed. In the words of Warren Buffett, "A company should be viewed as an unfolding movie, not as a still photograph." It is upon this slow unfolding of the movie that the investor experiences Lollapalooza.

The enterprising investor may object that these lessons are backward looking and may ask if the three musketeers had similar clarity when making their initial investment. More importantly, were they not tempted to sell when they made 5x/10x/15x returns?

The answer to the first question is an obvious no. There is no way that an investor can know in advance the results of his/her investments. Applying a rational investing framework, the three musketeers were able to figure out the company's clear advantage over competition, its superior product, legacy & expertise of Jockey International Inc, and the long growth runway (under-penetration + demographic dividend). At each juncture, the musketeers evaluated their hypothesis, and remained invested so long as the company delivered to their expectations. These simple steps gave them the conviction and confidence to hold on. And of course, avoiding comparisons with the buying price and thinking of the current price as the buying price helped them overcome the anchoring effect. As Billy Sunday famously said, "Temptation is the devil looking through the keyhole. Yielding is opening the door and inviting him in." Not just the temptation of booking profits, the musketeers also overcame many of the fears that we have discussed earlier in 'The Painful Multibagger'.

Needless to say, luck also played a major role in this investment journey. While the musketeers had envisioned a long growth runway, there was no way to be sure that growth would continue at the pace at which it did. It is our experience that when you back great management running sound businesses, more often than not, they surprise you on the upside. The investment return is thus a combination of a number of things, some measurable, like the investor's acumen and the stock's valuation, and others immeasurable, like the investor's emotional quotient and the role of luck.

The idea behind sharing this story is not to boast about the results of investing in Page Industries or about the ability to hold through ups and downs and resisting the temptation to sell. The idea is to highlight to investors how small decisions can have a large impact on investment results. In addition to buying and selling, these decisions also include the resolve to sit tight as well as the courage to average up. These, to our minds, are the best-known shortcuts to wealth creation.

And in case you are wondering, my story is portrayed by Bravo. While I was luckier than Alpha, I wasn't as lucky as Charlie, who now globe trots as a retired analyst, and an individual investor.

====

With editorial assistance from Tejas Gutka and Varsha Valecha

Disclaimer

This document has been prepared by Tamohara Investment Managers Private Limited ("Tamohara") and is provided to you for information only. This document does not constitute a prospectus, offer, invitation or solicitation and is not intended to provide the sole basis for any evaluation of the investment product or any other matters discussed in this document. This document is made available to you because Tamohara believes that you have sufficient knowledge, experience and/or professional advice to understand and make your own independent evaluation of the risks and rewards of the investments and/or other matters discussed in this document and to make your own independent decision whether to implement the same. Any view expressed in the document is generic and not a personal recommendation and/or advice. It does not consider your risk tolerance, financial situation, knowledge and experience. Please discuss with your investment advisor if you seek advice on whether the proposed investment products are appropriate for you. The investments discussed in this document may not be suitable for all investors. Investments are subject to market risk. There can be no assurance or guarantee that any investment will achieve any particular return. Unless expressly stated, products are not guaranteed by Tamohara or their affiliates or any government entity. Past performance is not necessarily an indicator of future performance. Actual results may vary significantly from the forward-looking statements contained in this document due to various risks and uncertainties, including the effect of economic and political conditions in India and outside India, volatility in interest rates and the securities market, new regulations and government policies that may impact the business of Tamohara as well as its ability to implement the strategy. The information contained in this document has been obtained from sources that Tamohara believes are reliable but Tamohara do not represent or warrant that it is accurate or complete, and such information may be incomplete or condensed. Neither Tamohara, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any upon this document or its contents, or for any omission. The views in this document are generally those of Tamohara and are subject to change without notice, and Tamohara has no obligation to update its views or the information in this document. Tamohara or its affiliates may have acted upon or have made use of material in this document prior to its publication. Tamohara does not provide legal or tax advice and should you deem it necessary to obtain such advice, you should approach independent professional tax or legal advisors to obtain the same. This document is confidential and may not be reproduced or disclosed (in whole or part) to any other person without our prior written permission. The manner of distribution of this document and the availability of the products may be restricted by law or regulation in certain countries and persons who come into possession of this document are required to inform themselves of and observe such restrictions. This document is not directed to, nor intended for distribution or use by, any person or entity in any jurisdiction or country where the publication or availability of this document or such distribution or use would be contrary to local law or regulation, including for the avoidance of doubt the US. The contents of this document have not been reviewed by any regulatory authority in India or in any other jurisdiction. If you have any doubt about any of the contents of this document, you should obtain independent professional advice. The product strategies mentioned in the document may change depending upon the market conditions and the same may not be relevant in future. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same and Tamohara or its directors, officers, partners or employees may or may not have any position in these sector(s)/stock(s)/issuer(s).