SAMPLE 2

Book Title: Coffee Can investing
Author: Saurabh Mukherjea, Rakshit Ranjan, and Pranab Uniyal
Our Headline: What caused the global financial meltdown
Writer: XXX
Category: Investments

Briefer:
While there are no guarantees in life, a well-planned and conservatively managed financial portfolio maximizes the chances of achieving most goals.

Target Audience:
Young investors, middle-aged investors, anyone who wants to build a winning portfolio

Author Description:
The authors are with Ambit Capital and are CFAs.

SUMMARY

COFFEE CAN INVESTING

"We wrote Coffee Can Investing to lay out a simple, low–cost, low-risk method for long-term investing across equities and bonds that allows investors to grow their wealth at a reasonable rate. Such an investment method is especially useful in volatile markets. Given that we are in an election year and the world economy is breaking out of the post-Lehman era of super cheap money, Coffee Can Investing is a good strategy to adopt going ahead." say the authors.

The trio argues that Coffee Can Investing is the book, which lays the low-risk road to stupendous wealth. In eight chapters Coffee Can Investing narrates various strategies of financial planning.

CHAPTER 1: TALWAR'S UNCERTAIN FUTURE

The episode starts with an ancient Chinese saying, "The best time to plant a tree was twenty years ago. The second best time is now." It gives the examples of the investment style of two men: one of Talwar, a senior executive of an MNC, and the other of Sanghvi, a businessman. The duo traded heavily and burnt their fingers. Over the years, their average holding period was four months, and 80% of their stock investments never lasted more than a year. It was a broker's delight, as effectively they were paying up to 7% of the portfolio value each year as brokerage. By trying to time the market, entered when the market was peaking and exited when the market was bottoming out.

Seven fundamental investment mistakes that most of us make are listed. These include: (a) No clear investment plan, (b) Trading too often, (c) Lack of diversification, (d) High commissions and fees, (e) Chasing short-term returns, (f) Timing the market, and (g) Ignoring inflation. The authors say that it is critical for an investor to nail down objectives such as children education and retirement planning and bake them into a financial plan. The exercise helps match the investor's financial goals with the kind of risk that he must take in his portfolio. It also pleads investors to be patient and systematic with equity investments.

CHAPTER 2: COFFEE CAN INVESTING

For a vast majority of equity investors in India, investment becomes a complicated affair, because substandard advisers surround them. Also to consistently generate health returns from equity investing, one has to invest in high-quality companies and then sit tight for long without losing sleep. It's something many investors are prone not to do. The chapter speaks about Coffee Can Portfolio and says that the portfolio has been built by looking into companies above Rs.100-crore market capitalization. Stocks like which over the preceding decade have grown sales each year by at least 10% alongside generating pre-tax Return on Capital Employed (ROCE) of at least 15% each year. Such a portfolio also performs admirably well during stressful periods and produces returns that are substantially higher than the benchmark. HDFC Bank, HCL Technologies, Lupin, LIC Housing Finance, Page Industries, Amara Raja Batteries were some of the stocks.

CHAPTER 3: EXPENSES MATTER

This chapter talks about the evolution of mutual funds and fund expenses such as transaction fees, annual fees, hidden fees, etc. The authors tell us with an example that fund expenses are often ignored but are essential. When a broker charges you a 0.5 percent fee, it may not seem like much. If, however, during a year you bought and sold five times, your total payment becomes, thanks to the 10 trades, 5 percent! The costs can drag down investor returns drastically. They also explain the importance of investing in passive funds, Exchange Traded Funds (aka ETFs), and the provisions prescribed by SEBI about 'only advisory' and 'only broking' model. As a rule, ETF has minimal expense ratios since it does not offer 'active' fund management and so does not have to employ star fund managers. SEBI deserves thanks for stipulating that an intermediary either be an advisor or a distributor; not both. This eliminates the conflict of interest inherent in mutual fund distribution where the broker or distributor of mutual funds is the investor's principal advisor.

CHAPTER 4: THE REAL ESTATE TRAP

This chapter highlights the significance of real estate in the investment portfolio. Real estate is one of the least clean sectors in India. The multitude of regulatory clearances required to buy land, develop it, and then sell residential apartments make it ideal for bribe-seekers. Over time, and over repeated transactions, rather than having a transactional relationship, many developers have realized that they might as well work in partnership with the politicians, regulators, and civil servants.

In India and developed markets, real estate has given far lower returns compared to equity over long periods of time and real estate offers little by way of diversification. The asset class does not deserve a place in most investors' portfolio. With real estate being highly illiquid, carrying high transaction cost, and unfavorable taxation compared to equities, it makes for an even less desirable investment choice.

CHAPTER 5: SMALL IS BEAUTIFUL

"Small is beautiful" talks about small-cap funds, mid-cap funds, and the beginning of love story of Indian investors with the stock market. It highlights the impact of demonetization, GST, and RERA on the capital market. The authors declare that over the last two decades, small-caps have outperformed large-caps and gradually attracted more research coverage from brokerage analysts and after that caught more interest from institutional investors with deep pockets. They claim that while the scope for generating superior long-term investment returns is greater with small-caps, the need for professional help is disproportionately more significant. The good news is that the Indian fund management community now offers several high-quality small-cap and mid-cap funds.

CHAPTER 6: HOW PATIENCE AND QUALITY INTERTWINE

It is here that the authors introduce the concept of 'patience premium' in equity investing. Investors who do not have even a year of patience, i.e., those who cannot hold a stock beyond one year, are prone to believe that often people lose money in equity markets.' The authors argue that for stock holding periods greater than one year, the Sensex's return over the past 25 years suggests that as the holding period increases from one to ten years, the investor's position on a risk-reward matrix moves from 'high-risk, low return' to 'low-risk high-return.' The authors' intuition suggests that shorter investment horizons are akin to speculative investing, where investors do not need to focus too much on the quality of the company to generate good returns. And that over longer investment horizons investors will have to rely on high-quality companies for superior returns.

CHAPTER 7: PULLING IT ALL TOGETHER

Investors must create a financial plan, which helps to deliver on life goals. Such a program should help to quantify and rationalize life goals. It helps to set up a return expectation from investment portfolio and helps build an appropriate collection of investments with just the right amount of risk. This chapter helps to understand the power of expenses and the damaging impact of compounding expenses over long periods of time and assists in selecting the most inexpensive investment instruments. The power of high-quality investing, patience and the concept of market volatility are well explained.

CHAPTER 8: DESIGNING YOUR FINANCIAL PLAN

In this chapter, the authors lay down a roadmap on how to carry out a financial plan efficiently and spell out relatively low-risk, high-return investment methods, and highlight the traps to avoid. Some of the significant pitfalls listed are a) No clear investment plan, (b) Trading too often, (c) Lack of diversification, (d) High commissions and fees, (e) Chasing short-term returns, (f) Timing the market, and (g) Ignoring inflation. They assert that it is crucial to link investment style with financial objectives and outline steps to prevent unnecessary risks or undershooting financial goals. In the end, they pronounce that financial planning is a dynamic exercise, needs to be carried out periodically or whenever a significant change occurs in cash flow, assets or goals. While there are no guarantees in life, a well-planned and conservatively managed financial portfolio maximizes the chances of achieving most goals.