Buy the world: Devina Mehra's advice for Indian investors

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Devina Mehra, chairperson of First Global, speaks about her investing strategy, global stocks, Chinese markets, dollar index and more.

SUMMARY

The US is not the world and just buying a handful of US stocks and maybe a couple of Chinese stocks is not really global diversification, says First Global chairperson Devina Mehra.

They say, 'Home is where the heart is'. When it comes to money, however, Devina Mehra, founder and chairperson of securities firm First Global, strongly feels that part of it should be parked outside of the home country.

"Wherever possible, we like to buy individual stocks and securities globally. In certain markets, because of regulatory reasons, stocks cannot be purchased directly, in which case we may get exposure via country ETFs (Exchange-traded funds)," said Mehra, who runs a global fund out of Cayman Island.

She invests 80% of her portfolio in her global fund and the rest in her India PMS fund. "We have bought South African Reits, Chinese shoemakers and Australian mine companies." She speaks to *Mint* about her investing strategy, global stocks, Chinese markets, the dollar index and more. Edited excerpts:

How should new investors select countries to invest in?

We actually prefer looking at individual stocks. Most of our portfolio is bottom-up stock picking. That said, we do sometimes make country bets by looking at how countries have performed over time.

This is not investment advice, but I'll give you one example. We track 42 countries' indices. This includes the major developed and emerging markets. What we've noticed is that the indices which are at the bottom, 39th to 42nd rank tend to become top performers in the coming years. For instance, Nasdaq was among the bottom-ranked in 2022, but became a top performer the next year.

Even geographies that have real issues, like Russia, Sri Lanka, Turkey, etc., that have performed poorly often see a complete reversal. If a country is going through issues, it does not necessarily mean it will stay like that forever—at least as far as the stock market is concerned. For all you know, if the crash is too sharp, the rebound is also equally dramatic.

That said, generally, in our portfolios, we have taken only small positions in such extremely beaten-down markets because we want to be a little conservative with our investor's money.

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How should an investor diversify their portfolio using global stocks?

If you're a small retail investor, buying through a mutual fund is a straightforward option. But that is no longer available, i.e., the schemes are not accepting money as the RBI limit for overseas investment has been breached. Even otherwise, overseas mutual funds operate as feeder funds and add another layer of costs.

At First Global, we have provided access to diversified geographies of all assets, with the portfolio starting at $10,000.

The other option is to open an overseas brokerage account like Interactive Brokers in the US and buy stocks or ETFs from there. You can move $250,000 every year to a foreign brokerage account using LRS (liberalised remittance scheme). If you want to do this, I suggest you buy the global ETF instead of those that are just investing in the US. I always say that the US is a big market, but the US is not the entire world.

How much of India allocation do you have in your portfolio?

I have a 20% allocation in India, and the rest is in our global fund based out of the Cayman Islands. Many investors are influenced by the 'home country' bias, and they end up putting a huge chunk of their portfolio in their home country. Logically speaking, it's better to have less equity allocation in your home country because you are already exposed to it in many ways (career, real estate, etc.)

We try to get rid of this home-country bias. India is less than 5% of the global market cap and there's no reason to make it 80% of our portfolio. We have around 1.63% weightage in India for our global fund which is a tad higher than the benchmark allocation. We benchmark ourselves with the S&P Aggressive 80:20 where 80% is equities and 20% is fixed income.

Which are the pockets you are finding attractive in the global markets?

For now, we have increased our exposure to Europe and China and are underweight on US stocks. The benchmark weight for Europe is 13.5%, whereas we have 17% investment.

We are underweight in the US, but not by a huge margin. We sold some US stocks a month ago, but the benchmark weights have changed this month, so the underweighting is small now. We are considering increasing the underweight position by selling more US stocks and maybe increasing the fixed-income component.

The US is still our top county allocation. However, US markets have been outperforming for over a decade (barring a few instances) and I was expecting this equation to change at some point.

I always say that themes change and nothing lasts forever. No country, no asset class, sector, or even investing style works forever. The baton keeps passing on.

Also, the US is not the world and just buying a handful of US stocks and maybe a couple of Chinese stocks is not really global diversification.

What is your rationale for investing in Chinese stocks?

China has been a laggard for a long. Since 2007, its GDP has gone up seven times, but it has not touched the highs it made in 2007. We've been tracking China for some time now and it's given few false starts. That means stocks went up but the run was not sustained. It's high time for them to start working now.

For us, China doesn't mean the handful of stocks people talk about like Tencent or Alibaba. We drill down and buy things you may have never heard of. It could be buying a footwear manufacturer, chemical company, or semiconductor business.

We are wary about these big stocks because there are un-modelable risks. Tomorrow, the Chinese government might do something because they think some billionaires are getting too big for their boots. A few years ago, we took the call that it was better to avoid the big stocks and focus on under-the-radar companies.

At times, big companies also provide good buying opportunities but with a caveat. The bigger known names have also been laggards but are picking up lately.

The dollar index, which measures the strength of the dollar against other currencies, has been struggling lately. What do you think about the US dollar and the rupee?

The rupee will remain weak vis-a-vis the dollar. When I started my career in 1986, the Indian rupee was at 12 against the US dollar, and now it is 87 per dollar. If you had invested abroad in dollars, not only would you have benefited from those stocks gaining in value but also from the rupee depreciation.

The US dollar has been struggling lately but it's not like the rupee will go back to 70 in the foreseeable future. The real challenge is to figure out the dollar's attractiveness compared to currencies other than the Indian rupee.

If you had asked me last year, I would have said there was no major reason for de-dollarization. Now because of Trump everything is up in the air. Given how he is behaving, people will have less trust in the US institutions and the US currency. Maybe now is the time people will start thinking of other currencies like the euro, yen, the Swiss franc, or some combination of these. But frankly, these are difficult things to predict and I'm no fortune teller.