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Positive on Indian stock market's long-term potential; overweight in pharma, IT, auto, says Devina Mehra of First Global

SUMMARY
Devina Mehra, founder of First Global, remains optimistic about Indian stocks, noting they haven't reached long-term trend lines. In an interview, she discusses investment strategies, sectors like pharma and IT, and emphasizes caution with small-cap stocks.

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Positive on Indian stock market's long-term potential; overweight in pharma, IT, auto, says Devina Mehra of First Global ***(First Global)***

Devina Mehra, the chairperson, managing director and founder of **First Global**, expresses optimism regarding the long-term outlook for mainstream stocks and indices of the Indian stock market. She highlights that these indices have yet to reach their long-term compounding trend lines or extremes in terms of rolling returns. In an exclusive interview with Mint, Mehra shares her views on sectors she is positive about, her approach to picking stocks, and the key themes of her upcoming book.

Edited excerpts:

Did the Indian stock market live up to your expectations in 2024? What are the key takeaways?

2024 was a good year overall for the Indian markets. The lessons are primarily related to what people now expect from the markets.

Many new investors who entered markets recently have not seen anything other than a bull run.

Expectations have run way ahead of where they should be. People say that they are conservative investors and would be happy with only 25-30 per cent returns, and they only want a tripling every three years. These are not realistic expectations.

Something that I hear frequently is that they are willing to take high risks for high returns.

The fact is that high risk does not guarantee high returns. All it guarantees is the likelihood of high losses! For most of 2024, the good, the indifferent and the bad all went up and often went up more than the good stocks.

In a quirky way of human thinking, most people attribute the returns to their own genius of unearthing good stocks

What is your outlook for the new year? What are the key triggers in your views?

I have never given annual forecasts on the market in over 30 years. This is in a category called 'objective ignorance,' which consists of things that you not only do not know but cannot know.

That said, I am not negative about the mainstream stocks or indexes on, say, a two- or three-year basis. That's because those indexes are not even at their long-term compounding trend line or extremes on a rolling return basis.

The risk of big sustained crashes is when the market goes way above the trend line. Here, the room was created for an uptrend because of a whole decade of underperformance from 2011 to 2000, where if you had invested ₹100 at the beginning, it would have become ₹230 in 10 years, which was barely above fixed-deposit returns.

This created room for the uptrend we have seen from the lows of March 2020. As for triggers on either the downside or the upside, these are usually seen only in hindsight.

It is said that risk is something you do not see coming; the same holds true for good luck, which is the flip side of risk.

Which sectors can generate alpha in the coming year?

In First Global's PMS (Portfolio Management Services) portfolios, we do a re-balancing every quarter by looking at portfolios from base zero and investing as if we had fresh cash.

As of today, we are overweight in pharma and healthcare, IT services and auto components. A sector we had been overweight for three years, capital goods and industrial machinery, we are now underweight.

But all this may change during the course of the year. As for new sectors or technologies, it is always hard to say which technologies will succeed and, within that, which companies or stocks will do well. So, caution is the mantra.

Can the outperformance of mid and small-cap segments continue in 2025?

As a general rule, the smaller the stock, the riskier the returns. However, SEBI's cutoff for small-caps and mid-caps is fairly high now.

For risk management purposes, we are super careful about investing in any stock with less than ₹5,000 crore market cap.

While the small-cap segment has done very well, I still maintain caution here because this segment has seen huge drawdowns in the past: nearly 80 per cent in 2008-9 and nearly 65 per cent in 2018-19.

Plus, risk management is near impossible here because when these stocks fall, there is often no exit and even hedges are not possible.

If you are invested in the areas which have done extremely well over the last few months/quarters and where things are looking frothy, please book profits and move to a steadier portfolio.

While assessing a stock to invest, what key things do you observe? Is there a secret to finding multi-baggers?

Now, the filtering is done by our artificial intelligence and machine learning system, where all expertise has been codified and where we keep testing new and old factors.

Even as an individual, you should look at not just things like profit growth, but also what is happening to cash flows, return ratios, etc.

The most important thing is to decide on the parameters and keep to them rather than getting sidelined by tips from friends, television, etc.

Also, remember that no one knows the future, and a reasonable percentage of your stock bets will not work out. Keep a strict stop loss for ideas which did not work out as expected because investing is a loser’s game.

You win only if you do not lose big money. No investor or fund manager in the world has had a track record of even 50 per cent, let alone 90 per cent multibaggers.

The best-performing mutual funds are those that outperform during market downturns.

Please let us know about your upcoming book. What should we expect from it?

The book is a distillation of my decades of following and learning from the markets.

It answers some of the most difficult yet pertinent questions about investing.

The attempt is to have frameworks, insights and a-ha moments for both the novice investor and the investment professionals.

Addresses questions like how to get started on your investment journey. Is investment only about the stock market, or should you go beyond it?

What are the rules of investing, and when do you break them? What are the strategies of successful investors, and should you follow them? What are the well-known investment mantras that are really myths? How your own brain can sabotage your journey? And many more.

It critically analyses different investing approaches and underscores what works and what does not.

The aim is to help readers not only learn to invest but also unlearn some of the commonly held beliefs and practices that lead to wrong choices.

How crucial is developing a money mindset for achieving success as an investor? In your opinion, what does having a "money mindset" truly mean?

I understand it as thinking deeply about your attitude towards money, including both spending and investing.

Prioritising savings and investing, not being at extreme ends of the risk spectrum, doing deliberate asset allocation and global diversification, being willing to live with the boring rather than using investing for entertainment or excitement, and keeping to a plan - these are some of the things one should explicitly set down and adhere to.

What are your key observations about the world’s top investors, and what do you think sets them apart as highly successful?

There is a long chapter in my book about it!

One, the investors may not be doing what you think they are doing.

Warren Buffett, for instance, sells a majority of the positions he takes within six months, whereas we think he holds everything forever.

Benjamin Graham, the patron saint of value investing, did not make his money in value stocks but in an insurance company.

Two, the investors may not be as successful as you think they are. For example, Ray Dalio's funds have hugely underperformed for 20 long years.

Most important, the question itself is inverted. You should not look at following the strategies of successful investors but instead ask that of everyone who followed this strategy the following question: What were the results?

For example, a highly risky strategy will result in some outsized winners even if 90 to 95 per cent of the people following that strategy go bust.

What are your everyday sources of reading?

I read a couple of business newspapers in India, Business Standard and Mint. Plus, some international papers online and news round-ups for the relevant economies, markets and stocks.

Keep informed, but do not spend too much time in the news feed loop. Business television can be a time sink.

Watch some particular interviews with company management or market participants, but sitting in front of the TV all day is dangerous.

Remember, most everyday movements in the market are random, so trying to find a reason for them will only mislead you.

Please tell us the names of some of your all-time favourite books.

There are, of course, books you must read on the basics of investing. Also, read writings by and on well-known investors and traders.

But do not swallow any of it whole. Test everything through experience and data.

So also for stories of businesses and business people. From Nike to Amazon to Apple, you will find that the real stories are much more complex, with many more ups and downs than the one-line success story you know.

A category of books that fascinates me is those on human biases and thinking fallacies.

Besides Daniel Kahneman's Thinking Fast and Slow and Noise, there are others like The Halo Effect, The Invisible Gorilla, The Art of Thinking Clearly, Misbehaving and others.

Devina Mehra is chairperson, managing director and founder of First Global, an Indian and global asset management company, and the author of the forthcoming 'Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra