Recipe For Value Investment In Share Market: Dos And Don'ts For Investors

Speaking to ETV Bharat's Saurabh Shukla, expert Devina Mehra advised investors to focus on good stocks with conviction, instead of just following other people's recommendations.

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In the share market, everyone aspires to grab as much money as possible and become a hero. The reality, however, is often very different. At times, it may give you multibagger returns and the very next day, the stock you have invested in may pull down your investments by more than half. So, how should one navigate the path to earning more from the share market?

ETV Bharat spoke to Devina Mehra, Founder and CMD of First Global, a portfolio management company, to understand the recipe for value investment.

Mehra also discussed about the current fall in the share market and said that such declines are not new and they have happened in the past as well. However, if the fundamentals are strong, one is aware that the market has always bounced back. She advised investors to focus on good stocks with conviction, instead of just following other people's recommendations. Additionally, she emphasized the importance of strictly following stop-loss strategies to minimize losses in the share market.

During the discussion about her new book 'Money Myths and Mantras: The Ultimate Investment Guide' published by Penguin, Devina Mehra shared that one should not invest everything into a single asset. "One should make a deliberate decision on asset allocation for their total investment. It should split among equity, fixed income, gold and real estate etc. depending on the person's age, goals and requirements. Besides this, as investment in market or market related instruments involves risk, one should also make provisions for the unexpected as well," she explained.

In the equity portfolio, she advised to avoid concentrating in only two or three industries and said risk management is paramount. "In order to win, one has to avoid the big losses. For long term financial health, global diversification is a must in every portfolio," she added.

Golden Key To Investing

Devina Mehra writes in her book that most investors fall in the very familiar trap of getting over-exposed to the hot asset class of their era. "But the key point to always keep in mind is that markets change, sometimes they become easy, sometimes very tough. Sometimes you can swing the bat for the sixes, and in times of crisis, you have to concentrate on remaining at the crease and not getting out," she said.

Mehra gave Nasdaq's example for a better understanding. In 2021, everyone wanted to be in Nasdaq and the tech stocks, but when many of those stocks declined between 40 and 90 per cent in the following year, the same people looked for an exit. Later, many of the same stocks topped the charts in 2023 again.

Giving a clarity on how much one should invest in equity, she said the amount should be something that one doesn't need for over a decade. "Also within equity, look at allocation along two dimensions: countries and sectors/industries. Ensure adequate diversification and don't chase something just because it has done well in the recent past," she advised.

Volatility Of Markets

Research shows that the Sensex went up seven times in the 1980s and only 2.3 times in 2011-20. That is the kind of variation possible in the equity returns. Money invested at the beginning of the 1960s in the S&P 500 rose to only 2.3 times over the twenty years to 1980 but the same index rose nearly ten times in the next twenty years of the 1980s and 1990s.

Success in the markets is often hinged on which time period a person is investing in. Also, trends show that small and micro-caps have seen much bigger losses than big caps and many stocks in the space disappear forever.

Game Of Probability

The First Global Founder also talked about the game of probability in investments. Mehra writes that investing is about ambiguity and hence is a game of probability. As here the future is unknown, every investment has an element of uncertainty. Even a carefully selected investment can go wrong. When we look at investments that have given great returns, we often forget that the actual path taken by the company may have been a low-probability event and passing up on the opportunity may have been the right decision for companies like Tesla and Apple.

Secret Of Multibaggers

Everyone wants their portfolio filled with lots of multibagger shares, but is this really possible? Mehra explained it by saying no one can build a portfolio of only multibaggers, or one consisting of 80 percent of 60 percent of multibaggers. Never in the history something of this sort has happened, that a single person has been able to build such portfolio. This formula for winning in the game of multibaggers is to have a well-chosen portfolio of at least 25-30 stocks across sectors, built with the same thought and analysis and using a system.

"Still, be prepared for some of them to turn out to be duds. As a rule of thumb, you may find that possibly five are absolute write-offs, another five do nothing very much either way, 10-12 give you reasonable returns and then and only if you choose your stocks well, there is a likelihood that 2-5 of those will turn out to be multibagger," she said.

The bottom line is, in order to find the elusive multibagger, one needs to explore broad range of opportunities rather than fixating on just one or two stocks expecting that those stocks will deliver for a lifetime.