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“Bull-markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.” by Sir John Templeton

Dear Investor,

Multitude of negatives, many of them unexpected – have been keeping the equity valuations at historic lows. The declining Rupee is fundamentally positive for Indian equities, but markets ignore this important fact during the initial panic of an economic meltdown. Many companies tend to benefit in the current economic environment though stock prices have been declining instead of appreciating.

Take the case of Selan Exploration, largest holding in PMS: Company earns revenue in Dollar terms and expenditure made in Rupee terms. Selan started drilling of new wells a month ago after wasting over 2 years due to govt delays for drilling permission. There is clarity now that company's revenue and profits would grow at 40-50% per annum for many years. I know investors are losing patience, but it make sense to remain invested and benefit immensely in the coming years.

We avoided banking and PSU stocks since couple of years, which have now fallen on an average 50% from their recent peaks. Most Funds are trapped in these stocks, which may do a bounce back but I still don't like them. Potential loan defaults in banking system looks really scary. PSUs are majority owned and managed by government, which is formed by politicians, who seems to be all bad guys!

Good corporate governance, clean balance sheet, futuristic business model and attractive valuation are the basic criteria for picking stocks in today's economic environment. I don't feel like discussing much about the macro-economy and political challenges today. Please remember Equity is one of the best hedge for an Indian investor today – notwithstanding the dull times of recent past.

Bad times won't last!

Let us wait patiently to reap the benefit of value investing.

Best Regards,

Porinju Veliyath
Portfolio Manager