Wealth Basket

2023

WEALTHBASKET ANNUAL NEWSLETTER

INFY | COALINDIA | MMFL | SBIN | ICICIBANK | ITC | GRINDWELL | KPITTECH | MARICO | ADANIGREEN | ALLCARGO | ATGL | RAJESHEXPO | REDINGTON

WealthBulletin

THE YEAR GONE BY

Want to know the most trending WealthBaskets that other investors are loading up on, along with the darling stocks of WealthBasket Curators? This section provides a snapshot of how India and Indians invested in 2022. Did your WealthBasket feature in the list?

Digital India: Investing in the Future, Rewarding in the Present

As the wave of digitisation sweeps across the nation, companies too hop on the bandwagon to make the most out of it, providing active investors with a once-in-a-lifetime opportunity to make a fortune by making the correct bets. Know where WealthBasket curators are betting.

The Quantitative Approach: Where Math Meets Money

Numbers are the bedrock of finance. When the tonnes of available data is crunched and tortured, one may find some patterns. This is translated to a model and if the model runs fine, it may make good money. That's quantitative investing for you where math meets money in the most unexpected way!

2023: Investing in the Right Sectors at the Right Time

Being at the right place at the right time is a moment of luck, that not everybody enjoys. But skewing luck in your favour isn't difficult if you have an army of SEBI-registered professionals working for you. Check out where WealthBasket curators are looking for opportunities in 2023.

Know your WealthBasket Curator

Check out the story of this WealthBasket curator who made the most contrarian bet during the 2020 COVID meltdown, catapulting their portfolio's returns far ahead of peers at the time. With over 11,000 active clients, they shall reveal their biggest blunders, milestones, and strategy that worked best for them.

THE YEAR GONE BY

Darlings of 2022

Most bought stocks & best performing WealthBasket of each month

STOCK	NO. OF WEALTHBASKETS		WEALTHBASKET	1M ABS RETURN
INFY	4	JANUARY	Alpha Core & Satellite	6.91%
COALINDIA MMFL SBIN	3	FEBRUARY	PEARL Focus	-0.15%
ICICIBANK ITC	5 5	MARCH	OpenQ Chemicals	17.18%
GRINDWELL ITC KPITTECH MARICO	5	APRIL	Lotusdew BSE Hidden Gems	11.61%
ADANIGREEN ALLCARGO ATGL RAJESHEXPO REDINGTON RHIM SCHAEFFLER SOLARINDS SWANENERGY	7	MAY	Growth Gurus	1.85%
ITC	9	JUNE	FlowW	2.34%
ICICIBANK	7	JULY	OpenQ India Consumption	15.47%
CAMS ITC	10	AUGUST	Momentum Moguls	11.99%
ITC	11	SEPTEMBER	Rocketship	5.51%
ITC	18	OCTOBER	Lotusdew BSE Hidden Gems	11.45%
AXISBANK ITC RELIANCE	6	NOVEMBER	XC Quant: Contrarian	8.90%
COALINDIA	14	DECEMBER	Disruptors	10.17%

Most popular stocks amongst WealthBasket curators

COMPANY NAME	SECTOR	CAPITALIZATION	WEALTHBASKET COUNT
ITC LTD	FMCG	Large Cap	19
ICICI BANK LTD	Bank	Large Cap	13
COAL INDIA LTD	Mining	Large Cap	11
SUN PHARMACEUTICAL INDUSTRIES LTD	Healthcare	Large Cap	10
STATE BANK OF INDIA	Bank	Large Cap	10

Trending WealthBaskets

	1Y Abs Return
Alpha Bluechip Curated by Renaissance Investment Managers	13.21%
Abakkus Smart Flexi-Cap Portfolio Curated by Abakkus Investment Advisors	1.96%
FtM - Trailblazers Curated by InvestorAi	-8.89%
MeritorQ Curated by Marcellus Capital Partners	-3.05%
OpenQ MNC Curated by Quantech Capital	6.05%

Index Beaters

	1Y Abs Return
Gulaq Gear 6 Curated by Estee Advisors	16.40%
Tamohara Truffle Flexi Cap Strategy Curated by Tamohara	15.36%
Alpha Dynamic Thematic Curated by Renaissance Investment Managers	15.11%
Alpha Bluechip Curated by Renaissance Investment Managers	13.21%
Alpha Core & Satellite Curated by Renaissance Investment Managers	12.95%

Start Small

	Minimum Investment
Gulaq Emergency Fund Curated by Estee Advisors	₹ 1,371
OpenQ Make in India Curated by Quantech Capital	₹ 10,000
Disruptors Curated by Rupeeting	₹ 25,000
XC Quant: Contrarian Curated by Xumit Capital	₹ 27,316
Low-Vol Shields Curated by Elever Investment Adviser	₹ 31,376

New Ideas

	1Y Abs Return
Value Migration Curated by Rupeeting	6.49%
Abakkus Smart Build India Portfolio Curated by Abakkus Investment Advisors	11.30%
AAA DIGITAL INDIA Curated by AlfAccurate Advisors	-7.83%
OpenQ India Consumption Curated by Quantech Capital	9.99%
XC Sector Real Estate Investment Trust Curated by Xumit Capital	1.20%

Data as on 30th December 2022

Know your curator

Sujit Modi

OpenQ

1Y abs	3Y CAGR	5Y CAGR
7.00%	30.53%	21.16%

Note: Above returns are computed as an average across all OpenQ portfolios

Average holding period

Depending on the portfolios & the themes, the rebalancing cycle can range between 15 days to 3 months

Key driver of your portfolio returns for OpenQ

Most of the OpenQ portfolios are quant portfolios, which rely on systematic equity factors with proven history of alpha generation like Momentum and Value.

Biggest milestone for OpenQ

Back in 2020, when the market was grappling to find its feet, and it was felt that momentum is doomed, we went full throttle on Momentum at scale with our flagship portfolio Defensive Momentum. In hindsight, that call really worked well for our investors. Another milestone was when we crossed 10K clients.

Average portfolio size

10-15 stocks

Factor combination that shows secular outperformance

Any one of the multiple combinations between quality, value and momentum has shown to deliver alpha over the cycle.

Biggest mistake for OpenQ

Since we are in the data business, we were very clear that we don't want to compromise on the quality of data. So we onboarded one of the global data vendors as our data partner. However, after approximately two years of relationship, we were forced to migrate our process to another global data vendor because we were not satisfied with them. This exercise put us behind by many months.

How much AuA/Clients do you advise?

11k + Active clients
with ₹43 Crore + AUA

Most challenging part of being an advisor?

To get the clients to stick to the process and complete the entire cycle. Many clients tend to exit the portfolio when the market starts trending downwards. Clients who stick to the process and complete the cycle, reap the benefit.

How large is your team?

6 members, 4 on the engineering side and 2 on research.

Factor that doesn't work but investors still use

Systematic Value on stand-alone basis has struggled to generate returns over the last many years. It is time to relook at the definition of Value and combine it with other trending factors to lift up the value performance.

How long have you been advising clients?

The firm was launched in 2018 and first portfolio was launched in Nov 2019.

Factor you are betting on for next decade

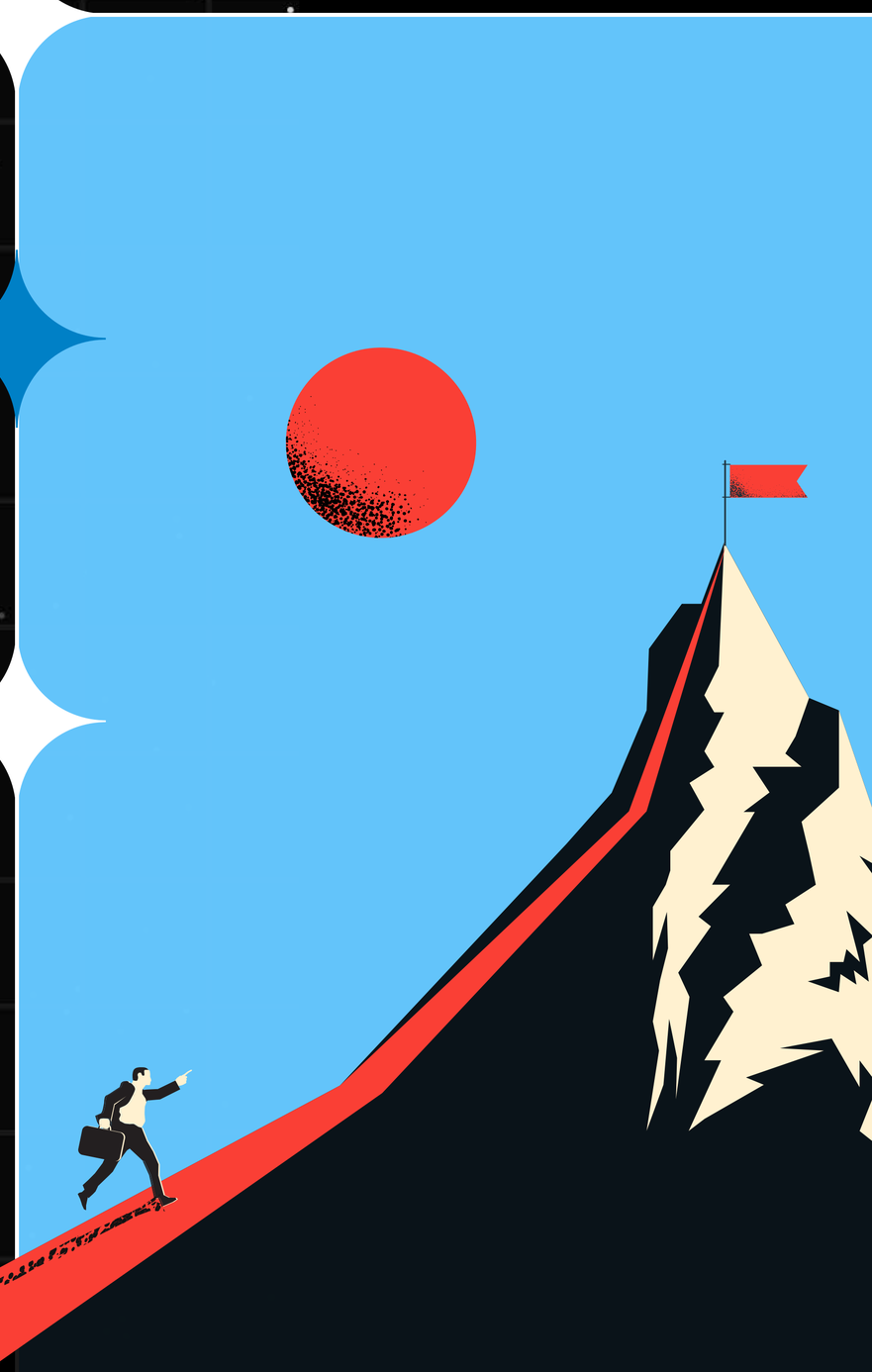
While we don't indulge in forecasting or any forward-looking activity as we clearly don't have the skillset for the same. However, our processes are designed in such a way that if there is any positive activity in a particular stock or sector, the process will automatically pick it up.

How frequently are client portfolios reviewed?

The portfolios are reviewed every day by our algorithms. Beyond the regular rebalancing cycle (1 month for most portfolios), emergency rebalances are smartly triggered when the algorithm senses the need for it.

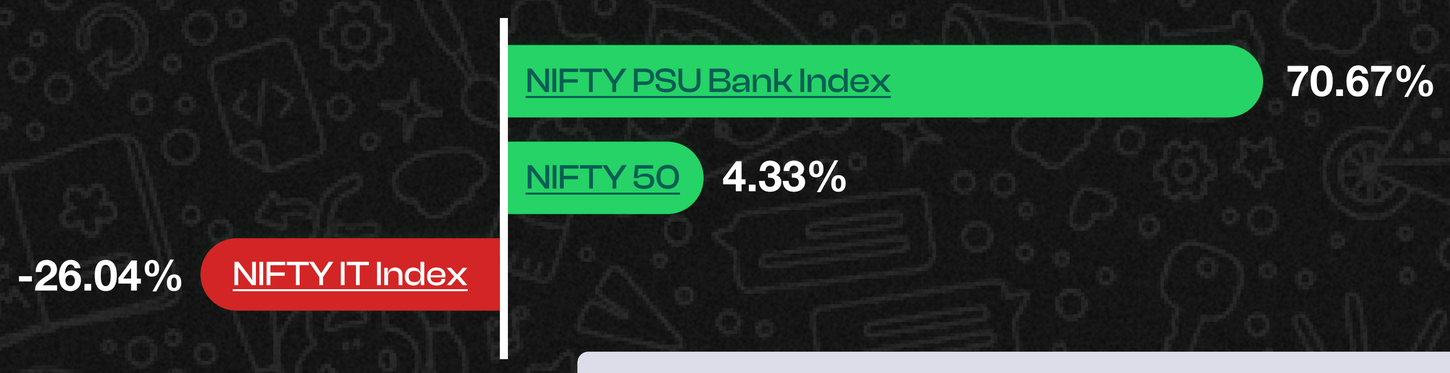
How many hours of research is put into per week?

Since we are a quant firm, most of the research goes in designing the process of idea validation. This typically takes over 3-4 months. But once the process has been put into production, it only needs monitoring on a regular basis. In case there is a major dislocation in the market, then we re-evaluate all the processes for their relevance, (like we did in 2020), otherwise, its part of business as usual.



2023: Investing in the Right Sectors at the Right Time

Jim Cramer of Mad Money is famous for saying, "There's always a bull market somewhere." While the general outlook for the economy and stocks may appear hawkish, and market indices are expected to stay rangebound for the foreseeable future, opportunities can always be found in certain pockets of the economy.



The figure on the left highlights the importance of positioning your portfolio towards the right theme at the right time to generate decent returns, otherwise, you will be left with duds giving negative price returns, no matter how promising their fundamentals appear.

Here are few themes that did wonders for our WealthBasket curators in 2022 and what are they excited about in 2023:

WealthDesk created group "2022 Investment Ideas"

"For us, it was banking. Banks actually saw a lot of correction compared to Nifty and the normal weightage of banking sector in NIFTY reduced by drastic level. By all means, from a value investing perspective, we started building our portfolios in banking.

When there is a rise in interest rates, PSUs in general - especially PSU Banks - do comparatively better because of their quasi-government status and easy access to capital. PSU banks were highly undervalued and could survive this thing."

Sectoral Bet
Banks & PSU Banks

Featured WealthBasket
XC Quant: Dividends

Sumit Singh
Managing Director - Xumit Capital

Sectoral Bet
Defense

Featured WealthBasket
Monopolies

"Defense was such an offensive bet for us. All thanks to Mehul who manages our Monopolies and Distruptors WealthBaskets for allocating 25% of portfolios to it in Oct'21. 3 stocks we were heavily invested were HAL, BDL and Data Patterns, all of which have been amazing. Overall the sector has done well and our Monopolies WealthBasket has been our best performing WealthBasket."

Sagar Lele
Founder - Rupeeting

We communicated to investors regarding PSU Banks in Oct'21 and had written exclusively about it. PSU Banks had given terrible returns as per last 10 years up until 2020.

They used to attract a lot of attention in our quant research due to their great valuation. They traded at 10-20% value of private sector peers. But the problem with PSU banks was the NPA. The market was discounting this because EPS contraction was expected for medium to long term, which eventually materialized in 2010-20.

By the time we reached 2020, there were lot of changes that happened. Most of the NPAs were already out, so we knew that the maximum damage had already been done. The government was making a bad bank, so that all the NPAs would be shifted there. Bankruptcy codes were also reformed, which made the recovery of assets relatively less tedious.

The best part was the credit growth. India is a country with a potential for credit growth of at least 15%, but since 2013, credit growth had fallen to 5-6%, most of which came from private banks. Share of loan assets for PSU banks fell from 80% to 61% during the time period.

Additionally, the government had great plans for infrastructure spending in the next 5 years, as announced in 2021. There were plans for roads and renewable energy power plants.

So the capex cycle was coming, loan books were clear of NPAs, and PSUs were trading at a significant discount. This was coupled with the rumor of privatization, which meant banks would be operating as proper businesses.

Idea was that eventually the discount of PSU banks would reduce compared to private peers from 80% to 30%. We expected this to happen over 3 years, but to everybody's surprise, one year was enough.

On the factor front, the dividend factor delivered while momentum lagged because of stretched valuations. Low volatility protected against downside movement but did not give outperformance since India did not witness a bear market, unlike foreign markets.

Sectoral Bet
Banks & Dividend

Featured WealthBasket
Dividend Titans

Karan Aggarwal
Founding Member & CIO - Elever Investment Adviser

“2022 Investment Ideas” changed to “2023 Investment Ideas”

“In fact, I think banking will also outperform in the coming year as compared to the other sectors. I think FMCG is also looking very good. The technicals and fundamentals for the top 3-4 companies are matching very well.

Construction materials is something a bit for volatile but getting traction. Now that 2024 elections are due, the government will have to complete its infrastructure project. There is good traction on the charts as well.

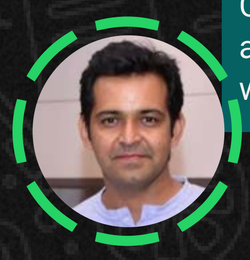
Capital goods too are doing pretty well. L&T and Supreme Industries to name a few. This cycle was long time pending for Capital goods company which was pending and now it’s time.”

Sectoral Bet

Banks, FMCG, Construction Material & Capital Goods

Featured WealthBasket

XC Quant: Quality



Sumit Singh

Managing Director - Xumit Capital

Sagar Lele

Founder - Rupeeting

“What we are inherently backing in 2023 is anything that is a government associated play from a policy perspective. So it can be infrastructure, PSU banks, cement, or defense.

In government, I am not talking about general PSUs or PSEs, but all government action affecting sectors. That’s the theme we would like to play in 2023.

This will include the PLI schemes, but we will assess which companies have how much of a PLI impact. Sometimes this is important to note because the impact on EPS is not that significant. Sometimes they are just getting reimbursement for marketing costs, for example.

From vanity perspective, these companies scream it out and invoke a favourable response amongst novice retail investors, but you need to dig deeper into understanding what benefit are they getting and what is the impact on EPS hence, over what period.

More importantly, is participation in the PLI changing the fate of the company by leading to additional opportunities and higher growth? That is the bigger question to answer to play this theme well.”

Sectoral Bet

Government Policy Associated Play

Featured WealthBasket

Value Migration

To be very fair, we are sector agnostic and look for opportunities everywhere. We are very risk-conscious, so we remain diversified across sectors and companies.

With that been said, few spaces that we like:

Banking and Finance -
We believe that the worst is over for credit quality, corporate credit growth is going to pick up from here, and NPAs are mostly provided for through high PCR in banks. So all parameters for this sector are in the sweet spot.

Capex -
We were ahead of our time while betting on this theme. We were 1.5 years early catching this trend in the market. Most of the companies today are at life time highs and this is the beginning of Amrit Mahotsav of India’s capex story. I think we are at the inflection point, and we expect the trend to continue for the next 3-4 years.

China +1 -
We have been playing this theme for the last two years and will continue to play it through specialty chemicals and other companies. India has a huge opportunity here. What we have achieved in pharma over the past 10 years can be replicated for specialty chemicals.

Consumerism -
As the per capita income of the nation is rising , the aspirations of the right demographics in India will catapult India to an advantageous position.

Sectoral Bet

Banking and Finance, Capex, China +1 & Consumerism

Featured WealthBasket

AAA Digital India

Rajesh Kothari

Founder - AlfAccurate Advisors

We have seen rise in interest rates. Even by the hawkish market commentary, we expect terminal rate to be 5.1%. Most probably we will hit that rate by June’23, eventually stabilizing at those levels.

This can lead to a shallow recession which will kill the demand, because even employment numbers might touch 5% for the US, from current 3.5%.

Markets should start factoring in peaking of interest rate by Feb/March, which can result in Momentum Moguls to do really well. Value strategy will continue to give decent performance owing to moderated growth expectations and high interest rates.

Dark horse will be Growth Gurus for us since growth expectations are likely to witness re-rating post Feb/March period. Since all eyes are now shifted to value, we can expect a contrarian rally in growth. This is in contrast to how the market is treating value over growth.

Sectoral Bet

Momentum & Value

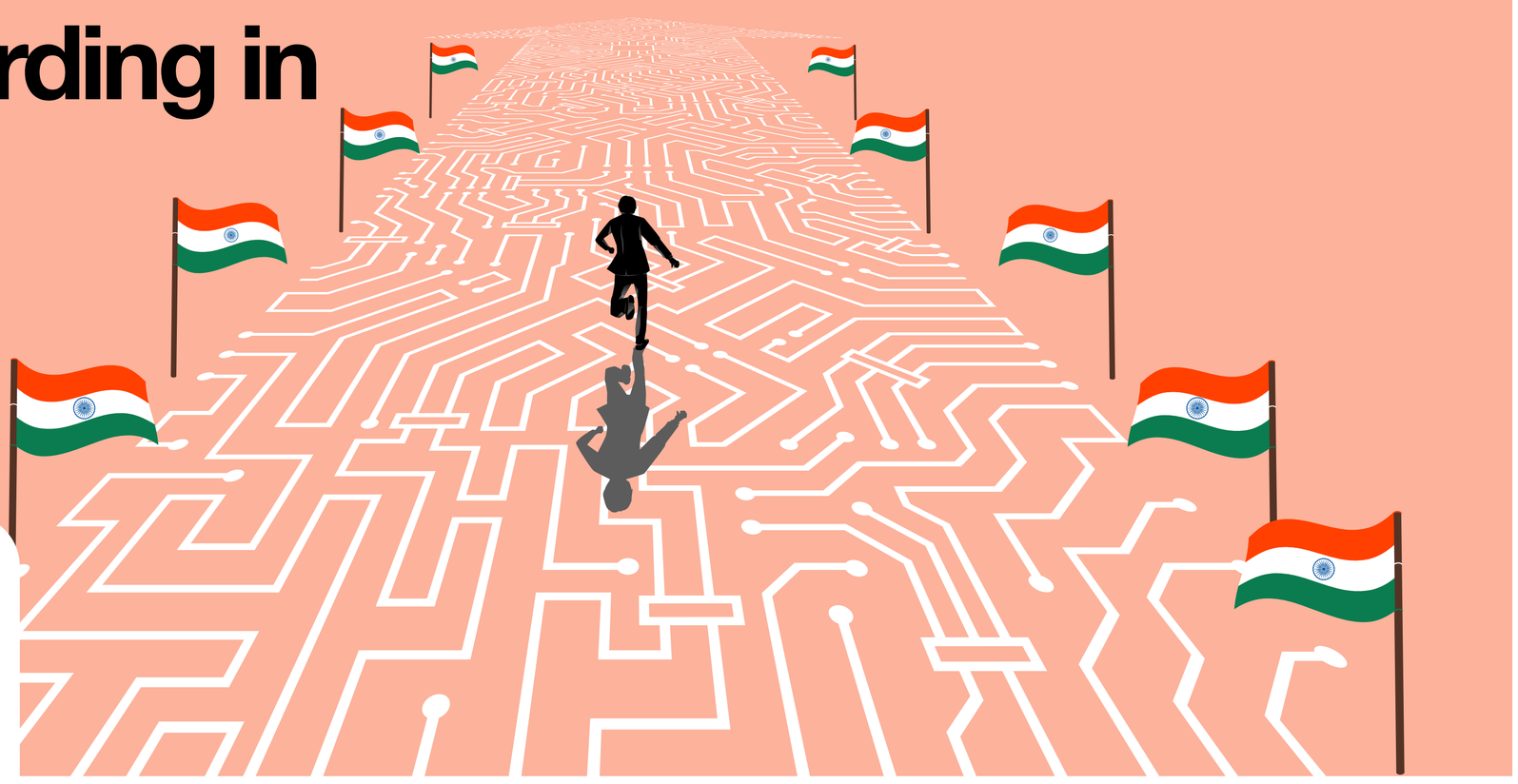
Featured WealthBasket

Momentum Moguls

Karan Aggarwal

Founding Member & CIO - Elever Investment Adviser

Digital India: Investing in the Future, Rewarding in the Present



Imagine waking up in the morning and reaching for your phone to check the weather forecast for the day. As you get ready for work, you check your emails, read the news online, and perhaps even listen to a podcast. On your way to the office, you use a ride-sharing app to book a ride, and once you get there, you log into your computer to start the workday.

This scenario is not uncommon for many people today, and it illustrates just how deeply the internet and digital technology have woven themselves into our daily lives. From communication and entertainment to transportation and work, almost everything we do today is connected to the online world.

In this digital age, it is crucial for a country to have a strong digital infrastructure and widespread adoption of technology. This is where investors will be playing the 'Digital India' theme for the next decade, and this is how you should look at it as well!

Why Digital India is the Trend That Keeps on Trending?

Digital India was first coined when PM Modi launched this initiative on 1st July 2015. Since then, events like Demonetization, UPI, GST and Covid have propelled the wave of digitisation across the country.

As the government and corporations started building the infrastructure for digital India, innovations started mushrooming in every nook and corner of the country, and India's GDP surpassed its former coloniser for the first time to take the reins of the world's top 5 GDPs.

XC New Age Internet Companies

MULTI-CAP | MEDIUM VOLATILITY

"During the research, we understood we have so many internet users in India, around 950 million, and we have the cheapest internet across the world. These themes would enable the companies to go digital. We play this theme through our WealthBasket".

Sumit Singh,
Managing Director - Xumit Capital

As appealing as any tale may seem, numbers keep us grounded in reality and serve as a useful reality check. Here are a few astounding data that back up the broad assertions that many astute investors are making in the market while betting on this theme for the coming years.

	2017	2022
# of internet users	422.2 million	932.2 million
Avg. data consumption per user per month	5.7 GB	17 GB
Internet penetration rate	34.4%	47.0%
Per GB data cost	₹75.57	₹9.53
# of startups	471	72,993

Source: TRAI, Statista, MoCI

Multiple data points indicate that India has made significant progress in terms of digital friendliness since 2017, and the future does not appear to be grim either. The government aims to enhance the digital economy's contribution to 20% of GDP by FY25.

As we inch closer to the $5 trillion mark for GDP by 2025-26, ~$1 trillion in GDP from the digital economy is a highly promising projection for the government and businesses to aim towards.

If the aforementioned target is achieved within the specified timeframes, we may witness exponential growth in the industry, opening several wealth-generating possibilities that an investor should look forward to pursuing.

How do you play the "Digital India" theme?

Check out how WealthBasket curators are riding this wave:

1. Main Trend-

Tech first consumer internet companies like Zomato, Policy Bazaar, Nykaa etc, are the obvious choices. Taking advantage of a country's favourable population demography, whose residents have the will and capacity to spend aggressively, these firms claim massive TAM and growth potential to gain market share from established competitors.

Although the market price performance of these firms has not been promising since their listing, supporters of the theme see these developments as minor hitches on the route to wealth accumulation.

Not all investors hold the same view. Some advise caution while looking at the theme.

Momentum Moguls

MULTI-CAP | HIGH VOLATILITY

"Our research led us to two conclusions:

1. Internet companies have no technological barrier, and they are just an online marketplace for offline counterparts
2. They do not have a path to profitability"

Karan Aggarwal,
Founding Member & CIO
Elever Investment Adviser

Mental Model - Proxy Investing

If the primary trend has been discovered, an investor can play the theme by investing in side/ indirect beneficiaries of the underlying trend.

For example, during the 1850s California Gold Rush, establishing a gold mine would be playing the major trend, yet selling picks, shovels, or denim jeans to the workers would necessitate 2nd and 3rd order thinking, thereby indirectly benefiting from the underlying gold rush theme.

Playing the proxies often produces superior risk-adjusted returns than the main theme.

2. Proxies-

If we were to list every sector of the economy and area that has profited directly or indirectly from digitization, we would run out of paper. Following is a list of few instances where businesses are taking advantage of this:

- Cost optimization by automating operational processes
- Reduced working capital requirements and shorter lead time
- Cheaper and smoother customer acquisition
- Enhanced customer experience
- Unlocks business opportunities in newer geographies and business verticals

AAA Digital India

MULTI-CAP HIGH VOLATILITY

"People get confused between digital and software. Software is just one part of the digital theme. Digitisation enables a business to operate more efficiently. This increases the entire scope of the digitisation theme which we play through the AAA Digital India WealthBasket".

Rajesh Kothari,
Founder - AlfAccurate Advisors

An investor's job in this case is to discover businesses that have been employing digital tools to better run their businesses and profitably grow at rates quicker than their peers.

These businesses can originate from any industry and serve any consumer group as long as they continue to spend extensively in developing their digital capabilities. These are the jewels which will upset the current traditional business model of brick and mortar enterprises' as they tread on their path to decadal wealth creation.

Disruptors

MULTI-CAP HIGH VOLATILITY

Case Study

Here is a case study of Home First Finance which is currently a part of Disruptors WealthBasket by Rupeeting. This is what Mehul Parikh, WealthBasket curator of Disruptors had to share about how Home First Finance is disrupting the industry

"Home First Finance is a brilliant example of this theme because they are so digitally focused. It is a traditional NBFC - HFC, but their digital focus makes them much more efficient in terms of targeting customers, converting them, reducing TATs, better disbursements and loan recovery processes, eventually leading to a higher quality of loan book.

So the entire stack that they have built on is very digital and new age, therefore giving them the edge in terms of performance and operational efficiency compared to their peers.

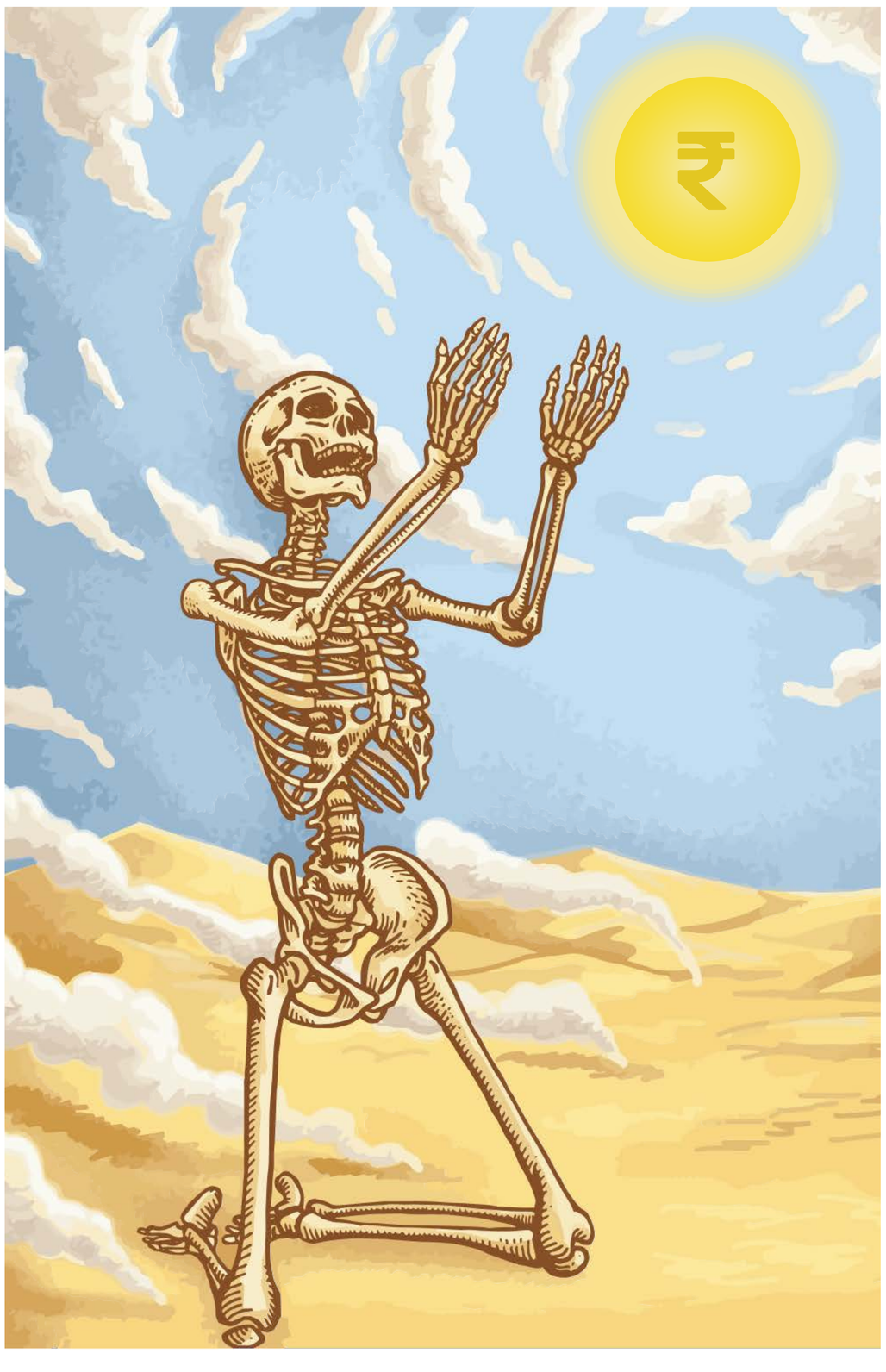
Overall, in the NBFC & Banking space our view is that whosoever is able to play the "Digital India" theme well, integrate their stack well and do more will turn out to be winners in both growth and profitability in the long run.

But those initial steps and the seeding has to be done right now. So it's not something you can switch overnight. There is no inflexion point or right time to it. I think investments have to be made early enough and whichever companies are making these investments, we will be extremely happy to add them in our Disruptors WealthBasket."

Mehul Parikh,
WealthBasket curator - Rupeeting

Value Investing Vs Value Factor

Dead or Alive?



Till early last year, before the tech selloff, I was reading articles and research papers like: "Is value investing dead?" After the tech sell-off, I read articles like: "Is Value Investing back from the dead?" The two-contrasting articles within a short span reflect the cyclical nature of the market. It is true that value has struggled to deliver returns for many years now, and various reasons are ascribed to it, ranging from the rise of intangibles to liquidity-led monetary policy and lower interest rates to value becoming a crowded trade and so on. Most of such conclusions are based on the return profile of the Factor. But is Value Investing and Value Factor the same? I don't think so.

Value investing is a philosophy or a concept of buying stocks at a price lower than some reference point (call it inherent or intrinsic worth). Waiting for the blackfriday sale to buy that next pair of jeans is akin to value buying. Value factor, on the other hand, is a metric to measure and define the quantum of value present in that one stock relative to the other (read cross sectional – how much discount does Levi's jeans has over Diesel).

Typically, such factors are defined using P/B or P/E or some form of dividend discount models (there could be other fundamental variables at play as well). Most of these are accounting measures and prone to estimation errors. Valuation as a concept is closer to cash flows. DCF is normally the preferred method for any analyst to estimate the economic worth of a company. Though one can argue that cash flows in DCF are estimated using accounting variables like EBIT/EBIDTA.

Even if we stick to the accounting measure, the value factor is a way of gaining exposure to value in a systematic way. A negative alpha for systematic value cannot be the basis for a conclusion on value investing as a concept. Discretionary value, together with systematic value, forms a large part of the value investing world.

While in terms of a pure factor portfolio (a long short portfolio with unit exposure to value and zero exposure to all other factors), value factor performance might be questionable, there are enough individual value stocks that have performed. PSU stocks, for example.

So while the debate is still on whether value is dead or not, it might help to take a look at the definition of systematic value and isolate discretionary value from the debate.

Authored by

Sujit Modi
Founder & CEO - Quantech Capital

The Quantitative Approach: Where Math Meets Money

Weather forecasting is an inexact science. It is a continuous, data-intensive, multidimensional, dynamic, and chaotic process of estimating the unknowns from historical data.

These forecasts are frequently made by collecting quantitative data about the current state of the atmosphere (temperature, radiation, air pressure, wind speed, wind direction, humidity, rainfall, and so on) and projecting how the atmosphere will evolve in the future using a scientific understanding of atmospheric processes.

No matter how exhaustive and comprehensive one's data about a geographical location's atmosphere is, one must always accept the chance of being wrong, as 10-day or longer forecasts are only correct approximately half of the time.

Quant investing is no different.

Quant curators use massive amounts of data about the companies (qualitative and quantitative) and economies (interest rates, inflation, GDP growth rates, etc.) in which they invest to make calls on the direction of asset prices in such a manner that they are more right than wrong to make money in the market.

They hope to attain more accuracy as they continue to refine their models in order to boost the alpha they can give to their investors.

The fine print of quant investing

Let us break this concept to its most fundamental bit by looking at how one of the most popular quant WealthBasket curators on our platform - Quantech Capital - looks at each factor while investing

What is a Factor?

Factors are characteristics that help explain the long-term risk and return performance of a stock.

Active fund curators use these characteristics in their security selection and portfolio construction process.

OpenQ Factors

Factor	Basic Fundamentals	How do you read the factor?
Quality	Sound & Solid Business	Aims to filter companies with good profitable businesses that churns out cash, with solid balance sheets from the ones struggling with not-so-great position. Not surprisingly, good-quality companies have outperformed historically
Momentum	Rising Stocks	Objective is to measure the recent performance of stocks. Assumption is that the reasons that caused out/under-performance recently, are expected to persist in the near future
Value	Relatively inexpensive stocks	Aims to capture how the stocks are priced relative to their fundamental value. The expectation is, given sufficient time, the valuations will revert towards the mean. This helps quantify what is intuitively advised about buying what is cheap & selling what is expensive
Size	How big/small the company is	Larger companies typically have well-entrenched, steady businesses that already dominate the competition. Though this means that the room for growth is modest, such a position is perceived as a margin of safety by the market Smaller companies set out to disrupt the incumbents, have a shot at much higher growth rates if successful, but come with a potentially higher risk
Risk	As measured by the volatility of stocks	Aims to capture & explain the difference in out/under-performance of stocks due to risk exposure. Stocks with lower-than-average volatility have historically outperformed over the long term
Yield	Cash paid out as dividends	Captures the performance of companies that pay out rich dividends attributable to this characteristic

Research by Quantech Capital

Quant investing is a bit more sophisticated than it might appear here. This is because it is critical to remember that correlation does not indicate causality. Simply because two variables appear to be connected does not imply that one causes the other.

For example, a stock may have given good price returns in the previous year, and momentum followers may believe that expected returns for the next six months will be high as well because there is an established correlation between the two; however, these price returns may have been caused by a favorable development in the company's industry.

For instance: Cement stocks have witnessed great price momentum recently and will likely perform well; however, this rally may be solely led by the entry of Adani group in the industry and has nothing to do with past price performance.

So, even though there would be a high correlation between past and future price performance for the stock, the actual reason for the same could be altogether a different factor which nobody could have predicted.

Many times, the reverse is also true. A researcher may come up with a highly logical explanation for why one factor may give good returns, but historical data might suggest otherwise, throwing all the logical mumbo jumbo out for a toss.

XC Quant: Contrarian

MULTI-CAP | MEDIUM VOLATILITY

"During elections, you might believe that some governments are pro-business while others are more conservative and populist. If the former comes into power, that could explain why the stock market would do well, but there exists NO correlation to prove this explanation".

Sumit Singh,
Managing Director - Xumit Capital

This is one of the reasons why quant investing remains an inexact science, in which researchers first make observations about factors and their contributions to stock performance and then try to come up with probable explanations for observed results.

How do you choose the right factor for your portfolio?

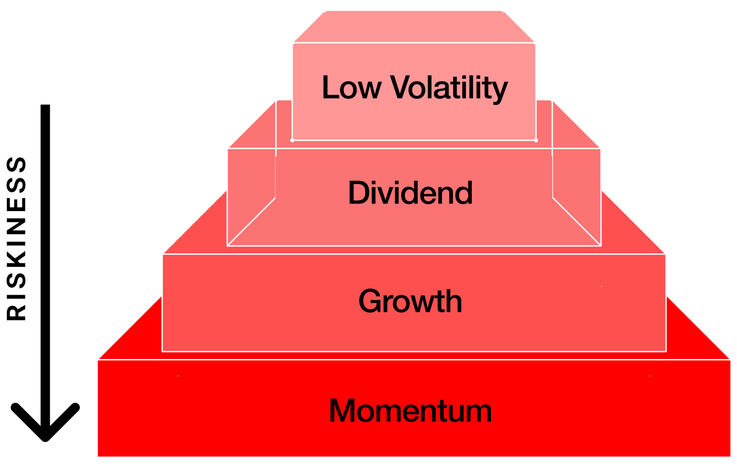
Different factors perform very differently under different market regimes. While taking directional calls on which factor will give you the best performance in a defined period must be left to expert WealthBasket curators a novice investor can keep the following advice in mind while positioning her portfolio, as per Karan Aggarwal of Elever Investment Advisor.

Growth Gurus

MULTI-CAP | HIGH VOLATILITY

"Most people go by returns, but when choosing a WealthBasket, they should go by risk. Understanding your risk taking ability during prolonged drawdowns is important. Secondly, they should look at the time horizon. Strategies like Growth and Momentum can remain at losses for 5-6 years. Shorter duration investors must opt for Low-Vol, Dividend and maybe even Value".

Karan Aggarwal,
Founding Member & CIO
Elever Investment Adviser



Also, an investor is exposed to the risk of choosing the wrong factor to invest in for a time period if their investment horizon is short. If you are looking to invest for three years then timing matters.

One such example of a multifactor portfolio is OpenQ Defensive Momentum by Quantech Capital. Built on high momentum and low volatility, it sustainably grows investors' wealth irrespective of the economic environment and claims to have zero periods of negative returns over 3 year rolling period with backtested 32%+ CAGR over 21 year investment period.

Featured WealthBasket

OpenQ Defensive Momentum

MULTI-CAP | HIGH VOLATILITY

Sujit Modi,
Founder & CEO - Quantech Capital

But factors aren't everything!

While most readers must be convinced that sticking to this simple investment plan may deliver decent results, some WealthBasket curators differ.

Quant is a good method to look at all aspects of investing, but it is far from complete. As Rajesh Kothari of AlfAccurate puts it, "Quant is just the basics"

AAA Emerging Business Opportunities

MULTI-CAP | HIGH VOLATILITY

"Quant is the basics - it's like a pizza bread. If I give you a pizza bread without toppings and nothing, it is of no use to you. If you want to enjoy the pizza, it should be served with the right cheese and the right toppings. That's how portfolios are built".

Rajesh Kothari,
Founder - AlfAccurate Advisors

Whilst quant investing might make you feel good about how your portfolio fared on backtested data, it is important to remember that money is made in the future. It is always made in the future, and for you to make that money, the discretion of an experienced investor comes in handy.

You need the right set of toppings and cheese to make it taste delicious, or the pizza remains partially/wholly incomplete.

Sagar Lele, the founder of Rupeeting, too relies on investment curators discretion in deciding allocations for their WealthBaskets. However, he does a lot of data crunching to make decisions for all their multiasset portfolios.

Rupeeting Core - Conservative

MULTI-CAP | LOW VOLATILITY

Rupeeting Core - Balanced

MULTI-CAP | LOW VOLATILITY

Rupeeting Core - Aggressive

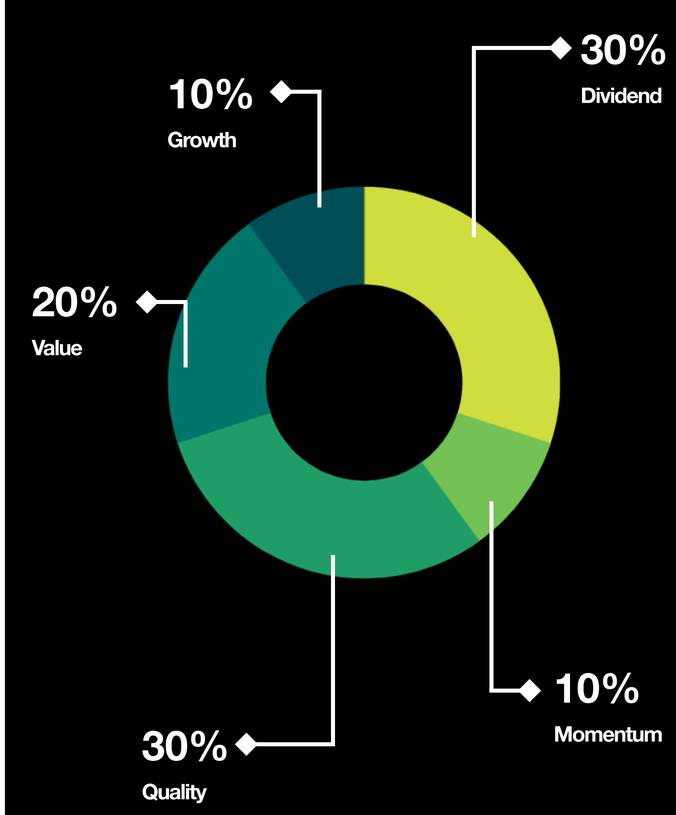
MULTI-CAP | LOW VOLATILITY

Based on the macroeconomic data at hand, they first take calls on asset allocations for the respective portfolio catering to investors of a specific risk profile, and then take security level decision on which security to invest in for the given asset.

These decisions are also made keeping in mind the correlation each asset/security has with each other to reduce drawdowns as much as possible without compromising the returns. This can only be made possible with the help of quant models that Rupeeting runs for their portfolios.

The debate between quant vs discretionary is eternal and will continue to interest investing veterans indefinitely, but as long as both generate adequate returns to achieve an investor's financial goals, they will coexist as separate investment methods heading in the same direction.

How do I invest Rs. 10 lac today for the next 10 years in 2023?



Authored by

Mehul Parikh,
WealthBasket curator - Rupeeting

Note: The answer will vary based on the investor's risk profile and time horizon. The portfolio suggested above is for an ideal investor with a 7-year or longer investment horizon and a moderate risk profile.

HINT

MOST ANSWERS ARE HIDDEN IN THE NEWSLETTER ITSELF

QUIZ TIME

ACROSS

2 I am a global index comprised majorly of technology companies (6)

6 I am a major global currency whose name can also be used as a unit of weight (5)

7 I am an investment methodology which identifies a growing theme but instead invests in companies which support the theme indirectly (5,9)

9 I am the most added stock by curators in their WealthBaskets for the year 2022 (3)

10 Jim Cramer said this famous line “There’s always a bull market somewhere” on which TV show (3,5)

11 I am a cross-functional metric used to compare between stocks and find their relative value (5,6)

DOWN

1 I am a sectoral index with the highest returns in 2022 (3,4)

3 I am a term coined a few years back by a very important man (7,5)

4 I am a new age investment theme which takes into consideration a lot of data and math before investing (5)

5 A protocol launched in 1987 banned the use of certain compound of gases. What is the base element for these gases? (8)

8 I am an investment theme which deals only with those companies who pass my value filters. What is second pillar of my value filter? (6)

ENTER TO WIN! PRIZES

Email your responses to the Email ID communications@wealthtech.in by Sunday, 22 January, 23:59:59 IST. Please keep subject line as “WealthBaskets Annual Newsletter”

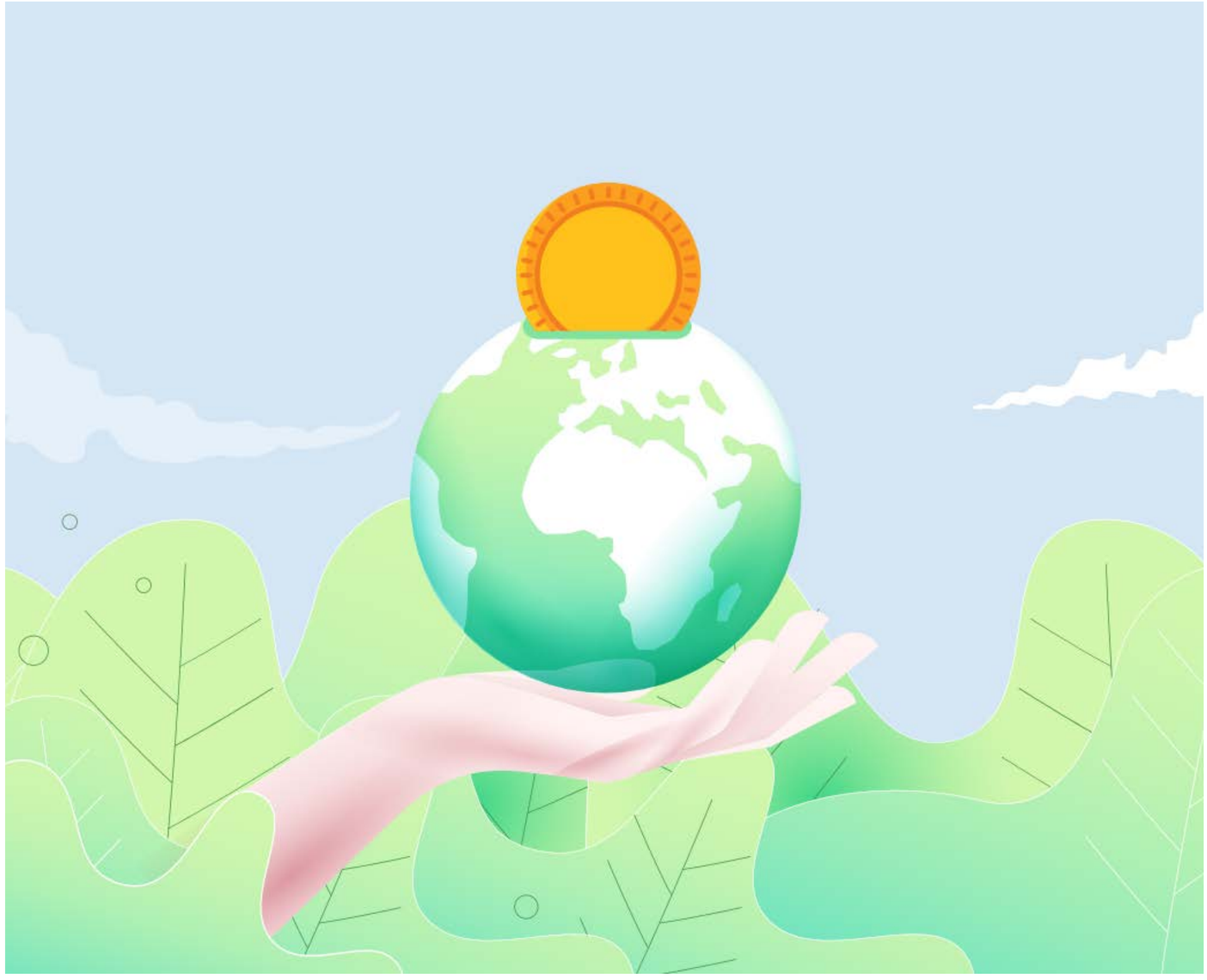
Include your name and phone number to communicate with you if you are selected as the Winner

3 Winners with maximum correct answers, will be chosen. In case of a tie, the decision will be on a lucky draw basis

Winners will be communicated by Friday, 27 January

NOTE: Decision of judges will be final

ESG Investing: Doing Well by Doing Good



Investing is one of the core pillars of solid personal finance, and personal finance is more 'personal' than 'financial'. Rather often than not, effective investment decisions are based on what suits a person more than what quantitatively makes the most sense, producing the highest "risk-adjusted returns".

If investing is a far more intimate practice than you thought, it must also be consistent with your daily values. Consider Shariah-compliant investment. It is a type of socially responsible investing in accordance with the Shariah law of the Muslim religion.

So, if a person follows the Islamic way of life, he will not wish to engage in investments that contradict it. These include, but are not limited to, the sale of sin goods and the collection of interest.

As more individuals realise this, the need for sustainable investment options will only see an uptick as is happening today.

Now that we've established where the notion of ESG originated, let's look at how different industry participants define it.

E-S-G naam toh suna hoga

Defining the undefined		
Environmental *Conservation of the natural world*	**Social** *Consideration of people & relationships*	**Governance** *Standards for running a company*
- Climate change and carbon emissions - Air and water pollution - Biodiversity - Deforestation - Energy efficiency - Waste management - Water scarcity	- Customer satisfaction - Data protection and privacy - Gender and diversity - Employee engagement - Community relations - Human rights - Labor standards	- Board composition - Audit committee structure - Bribery and corruption - Executive compensation - Lobbying - Political contributions - Whistleblower schemes

Source: CFA Institute

ESG is an acronym that stands for environmental, social, and governance. Aside from the full form, no one in the business can agree on a single definition of ESG and what it entails.

Companies produce 100-page reports on their ESG operations, ESG rating companies provide extensive rationales for their ratings, and investors continue to pour more money into ESG-themed financial products, all while failing to unanimously agree on what constitutes ESG and what does not.

Veteran WealthBasket curators have their own take on the topic as well.

AAA Digital India

MULTI-CAP | HIGH VOLATILITY

"ESG is a journey. What is important is the company's intention—doing business in the most ethical way possible, which comes first, even on top of ESG. ESG is a concept that people have only recently started discussing in the last 4-5 years, but ETHICS and INTENTIONS are most important and go much beyond ESG".

Rajesh Kothari,
Founder - AlfAccurate Advisors

With all of this noise, it's tough to engage properly on the topic without being confused about what's right and what's wrong. Furthermore, as utopian as it may sound, there is a dark side to it that not everyone discusses.

What is wrong with ESG?

Despite our best efforts, the ideals embodied in these three small initials do not always coincide. That is why a compromise is required.

Convincing firms with thin profit margins to invest money to reduce their greenhouse gas emissions, for example, is a huge task. It is not without repercussions.

Companies may have to compromise profits paid out as dividends to shareholders in order to cut emissions. Dropping dividends are accompanied by falling share prices, both of which reduce shareholder returns.

Karan Aggarwal, CFA of Elever Investment Advisers, one of the quant WealthBasket curators on our platform, stated there is no substantial data to back assertions that ESG may generate outperformance, citing the white paper 'Honey, I Shrunk the ESG Alpha: Risk-Adjusting ESG Portfolio Returns'.

S&P 500 vs S&P 500 ESG Index

NIFTY 100 vs NIFTY 100 ESG Index

The above charts clearly depict the absence of any significant outperformance given by respective ESG indices in India and abroad, since inception.

What good is this 'investment' theme that promises subpar returns?

Even if we ignore this, there is no guarantee that organisations ranked higher on ESG considerations actually do well for their stakeholders. “If a global number one company Johnson & Johnson get sued because of their involvement in terror funding and they give you a 100 page of ESG report attached with annual report - to me that ESG has zero value”, says Rajesh Kothari from AlfAccurate Advisors.

XC Pure Alpha Strategy

MULTI-CAP HIGH VOLATILITY

“You have to be very number driven and compute future cashflows, nothing else. You can not let emotions drive decisions and ESG theme attracts a lot of emotions”.

Sumit Singh,
Managing Director - Xumit Capital

Socially Responsible Investing

MULTI-CAP HIGH VOLATILITY

Case Study

Greenhouse gas emissions have long been suspected for triggering Ozone layer gaps. In 1987, all nations signed the Montreal Protocol, which outlawed the use of CFCs and HCFCs and became a stepping stone to a long-term trend of shifting consumption toward cleaner gases.

SRF's founding coincided with this development taking place halfway around the world in Canada. SRF fluorine production, a cleaner alternative, was set to gain greatly from what was happening.

SRF's product portfolio continues to evolve in the same way as protocol participants agreed that we will continue to transition toward cleaner gases.

Is fluorine good for the environment? - NO
Is SRF working towards making the world better than it was before? - YES

Dhiren Jain
WealthBasket curator - Rupeeting

Realistic way to approach ESG Investing

With all of this hoopla, Dhiren Jain from Rupeeting steps in to explain how they went on to develop their Socially Responsible Investing WealthBasket, hoping our readers might learn a thing or two about playing the theme sensibly.

Multiple agencies give ESG ratings in the sector, and the standard mandates that a greater ESG score must attach a bigger weight to the security.

This method has two shortcomings:

1. Multiple grading agencies' ESG scores do not coincide because this is a very subjective and qualitative procedure
2. Weighting based on ESG scores is based on the notion that firms with higher ESG ratings provide greater returns (a myth we busted earlier)

Rupeeting addresses this by not depending solely on the ESG ratings provided by third-party rating organisations, but rather by defining it themselves based on the research of these agencies, providing them greater autonomy, flexibility, and control over what they mean by ESG.

They also keep in mind that ESG investing still contains the word "investing," and that making money takes precedence over other considerations. While only firms that score well on their ESG framework or are on the path to getting better are included in the investment universe, the final decision on weight is made at their discretion based on their assessment of tailwinds favouring the company.

Following this easy procedure might help you identify good businesses that are riding the ESG theme's secular trend.

Consider SRF Ltd., which not only generated a lot of money for Rupeeting in its portfolios but was also on a constant journey to becoming more ESG compliant, as they characterised it.

By adhering to their mindset, they not only selected a multibagger for their portfolio, resulting in profits, but they also adhered to the ideals of investing in businesses that make the world a better place.

You can either learn from the takeaways of the process shared above or let the professionals do their job and take a backseat by subscribing to their WealthBasket.

THE RISE OF GIG WORK

What is gig economy and gig work?

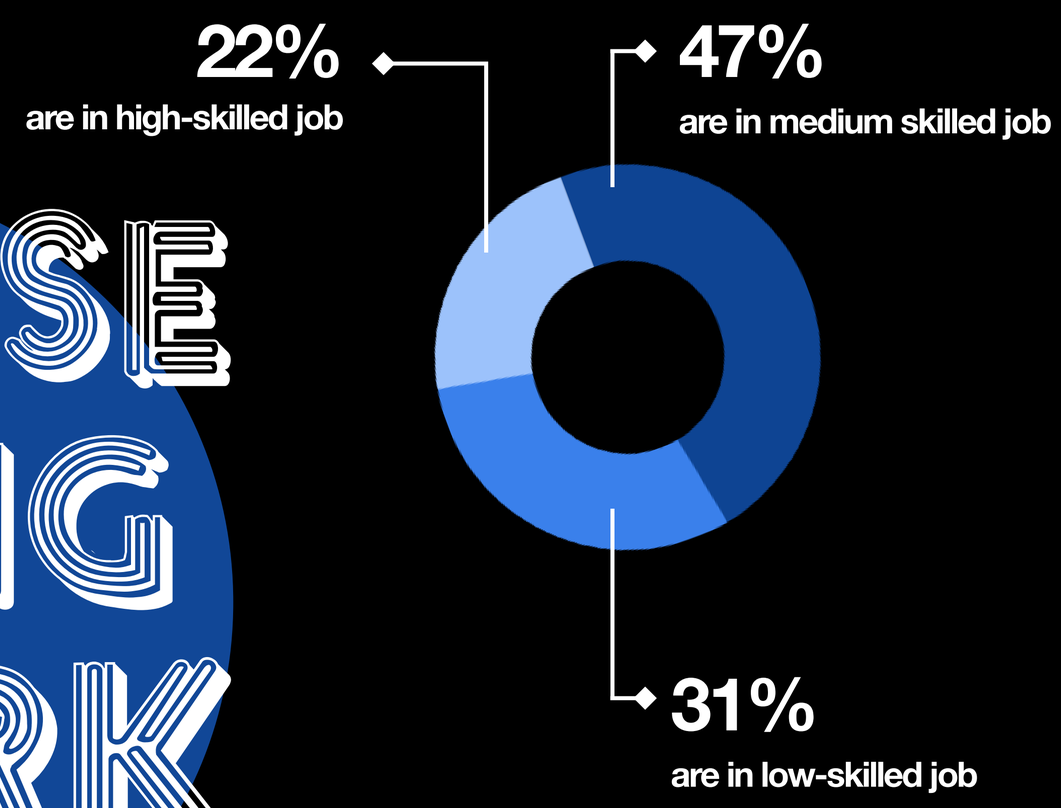
- A Gig economy is a free market system in which temporary positions are common and organizations contract with independent workers for short-term engagements.
- Gig Worker: A person who performs work or participates in a work arrangement and earns from such activities outside of traditional employer-employee relationship.

How many people are employed through gig work India?

Currently as per government estimates 7.7 Million Indians are employed through gig work in India

Examples of work in each category:

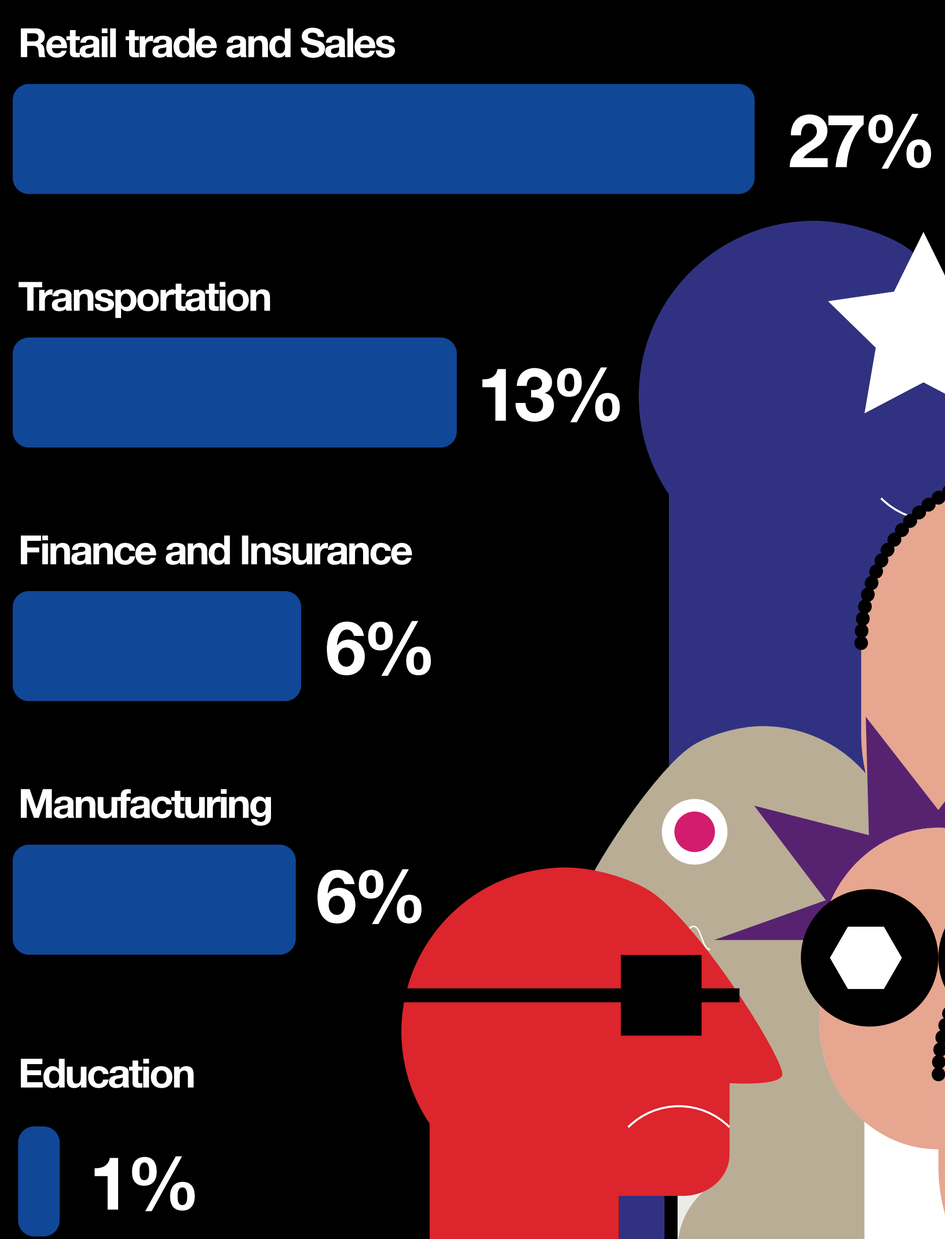
Low Skilled: Delivery Executives, Manual Labourers
Medium Skilled: Telecallers, Electricians, Carpenters, Beauticians, Construction Workers
High Skilled: Consultants, Designers, Software Developers

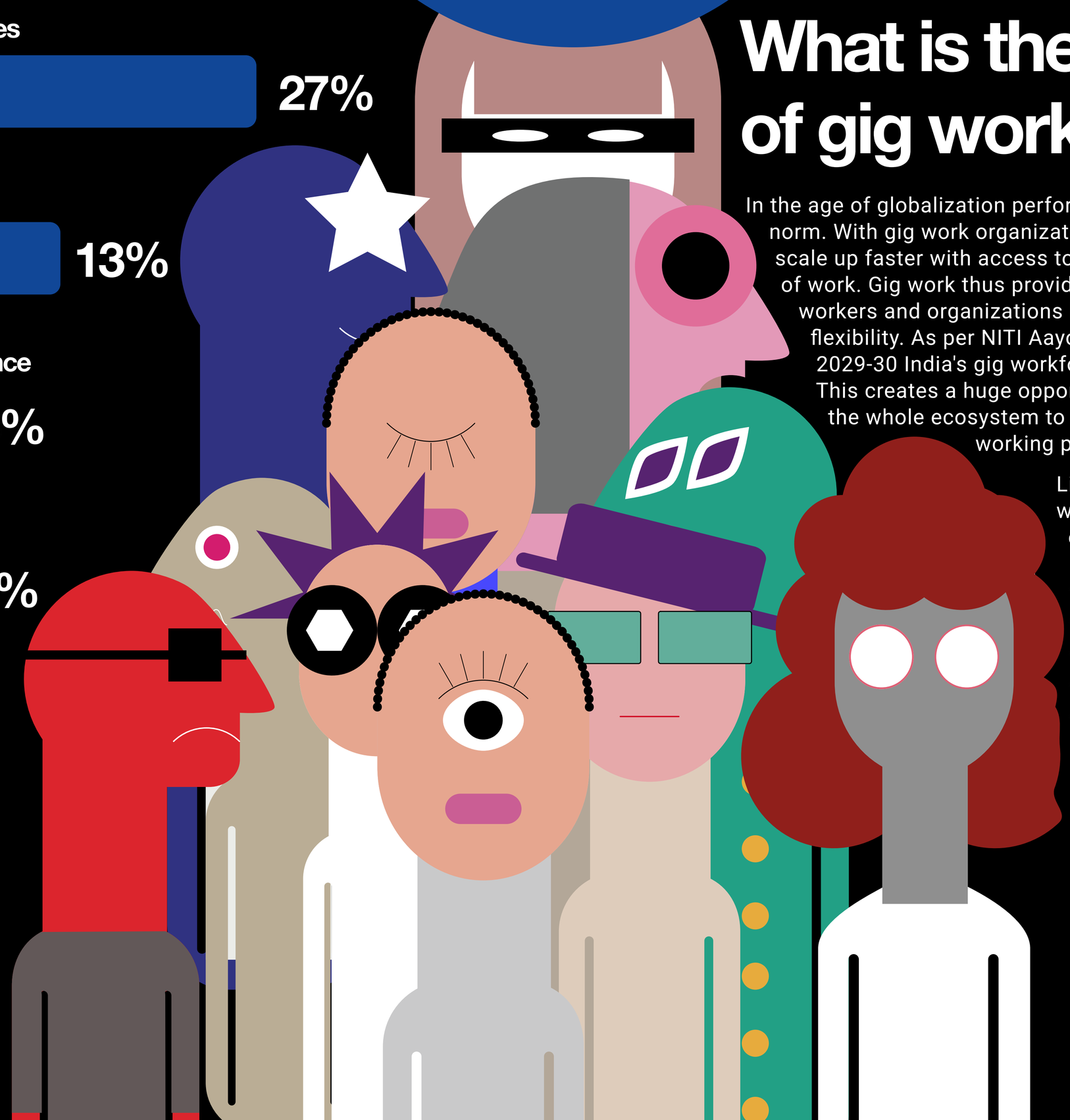


Which sectors will benefit from rise in gig work?

Currently retail trade and sales is the sector which employees majority of gig workers followed by transportation, finance and insurance, manufacturing and education. Trend shows the concentration of workers in medium skills is gradually declining and that of the low skilled and high skilled is increasing. It may be expected that while the domination of medium skills would continue till 2030, gig work with other skills will emerge.

% of total gig workers (based on industry)





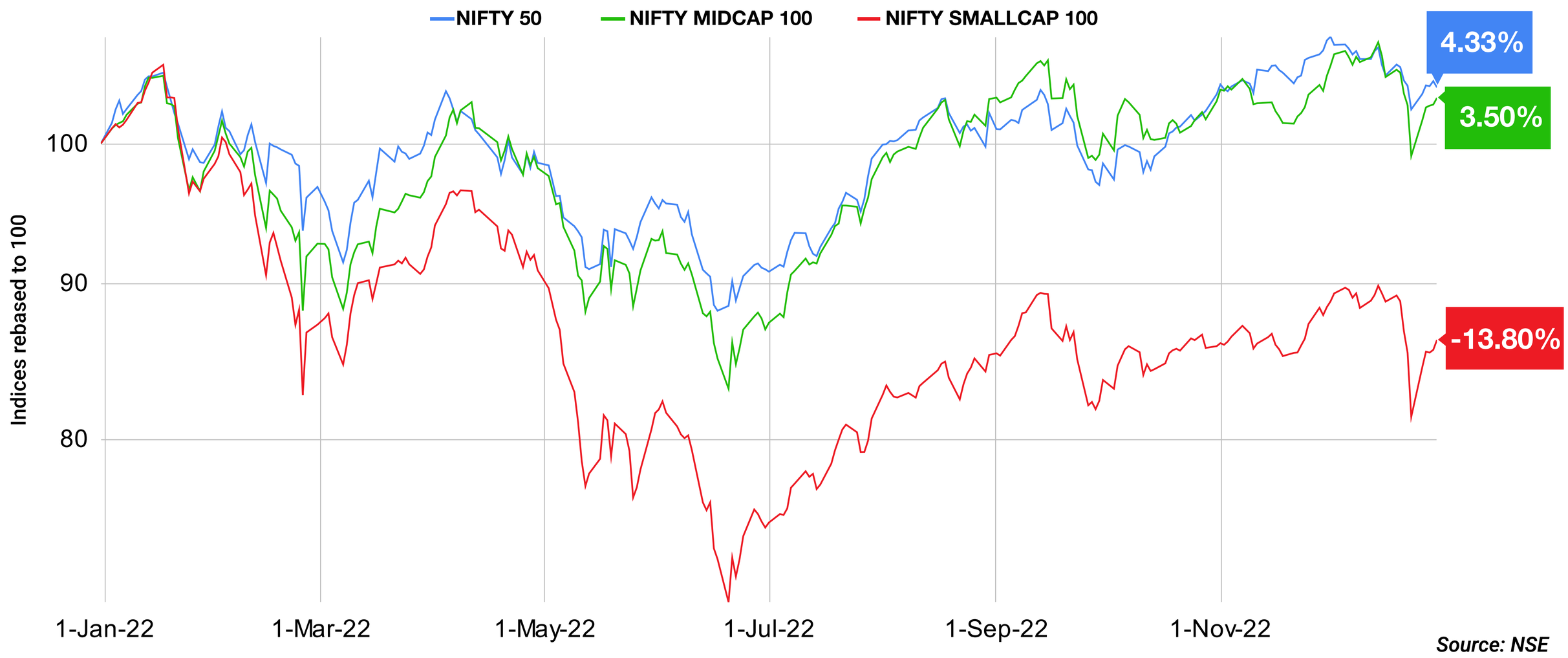
What is the future of gig work?

In the age of globalization perform or perish is the norm. With gig work organizations get a chance to scale up faster with access to expertise in any field of work. Gig work thus provides avenues to both workers and organizations by providing flexibility. As per NITI Aayog estimates by 2029-30 India's gig workforce will cross 23.5 million. This creates a huge opportunity for platformization of the whole ecosystem to cater to the needs of this working population

Listed players from these sectors will be the biggest beneficiaries of this rise in gig work

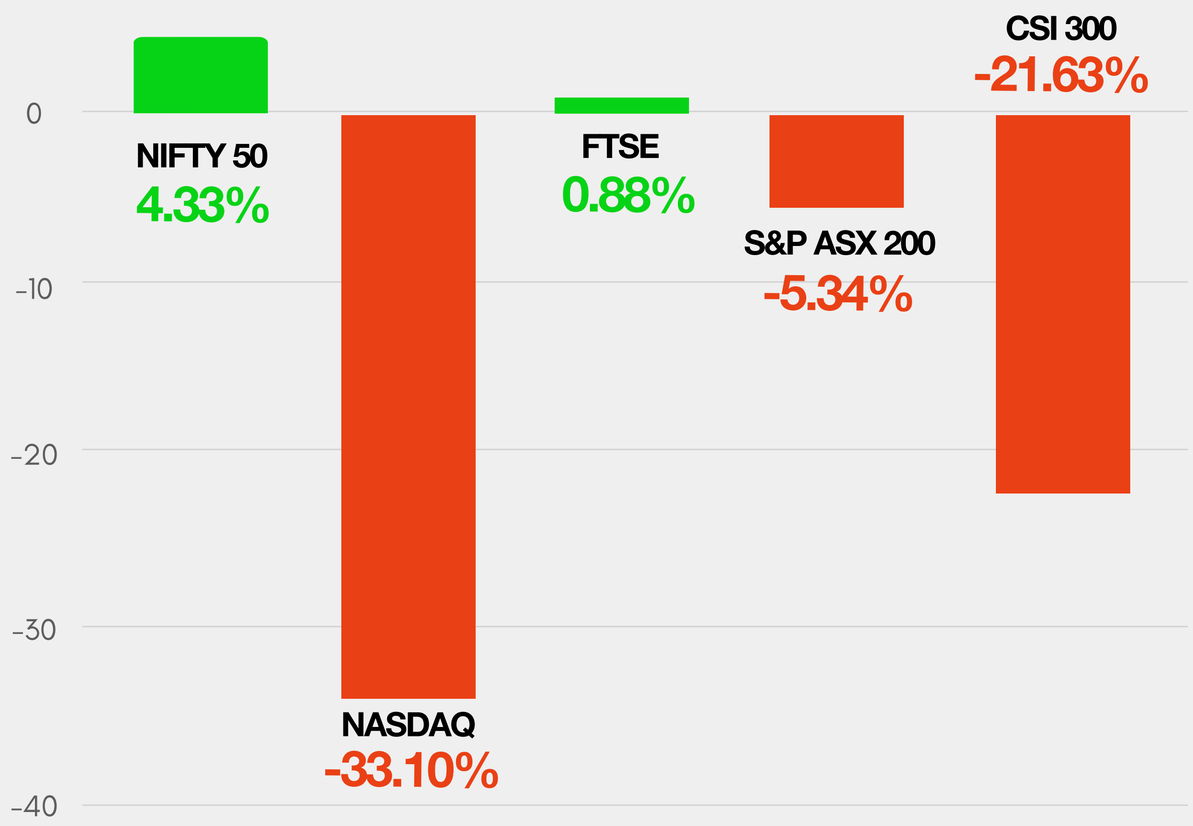
- IT & ITES
- Finance
- Manufacturing
- Logistics and Transportation
- Infrastructure

Indian Indices Movement (2022)



Source: NSE

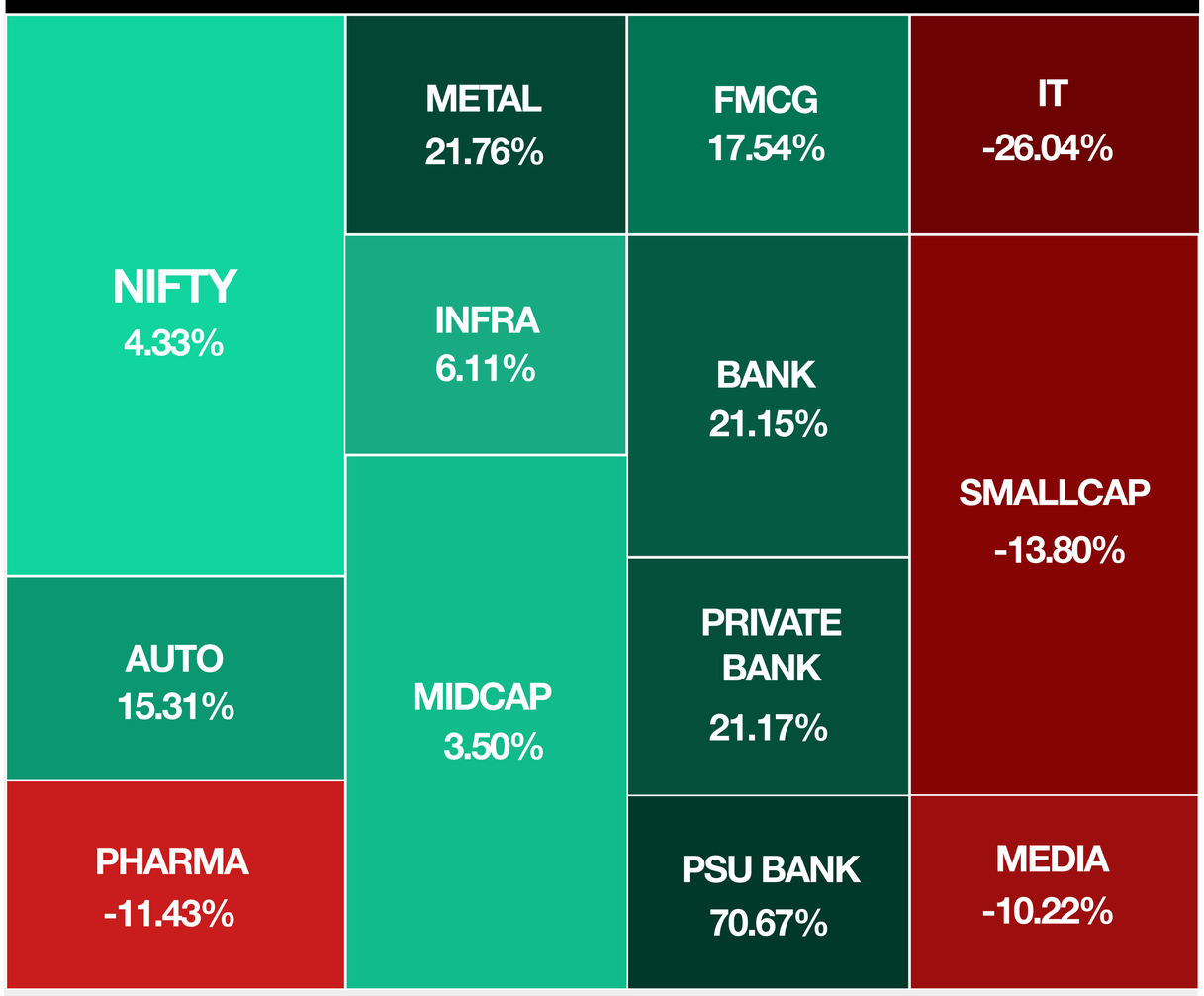
Nifty Vs Major Indices



Source: Tradingview

- Nifty has outperformed all major global indices, supported by inflows from retail investors and good quarterly results by Indian companies.
- Tech based stocks of NASDAQ showed the largest drawdown due to the fall in users of major US consumer based product companies.
- The Chinese CSI index has been the second biggest loser partly due to the Russia-Ukraine war but mostly due to the internal Zero Covid policy.

Sectoral Performance



Source: NSE

- PSU Bank index outperformed amongst sectoral indices with ~71% returns on the back of good growth, increasing interest rates along with the growth in loan books and reduction in NPAs.
- Worst performer was IT sector which lost ~26% due to recession fears and loss of subscriber base in US based tech stocks.

Commodities

GOLD	SILVER	CRUDE OIL
14.38%	10.78%	16.53%

Currencies

INR/USD	INR/GBP	INR/EUR	BTC/INR
-4.37%	0.67%	-9.95%	-61.40%

Source: MCX, TRADINGVIEW, GOOGLE FINANCE

Inflows in IPO Market

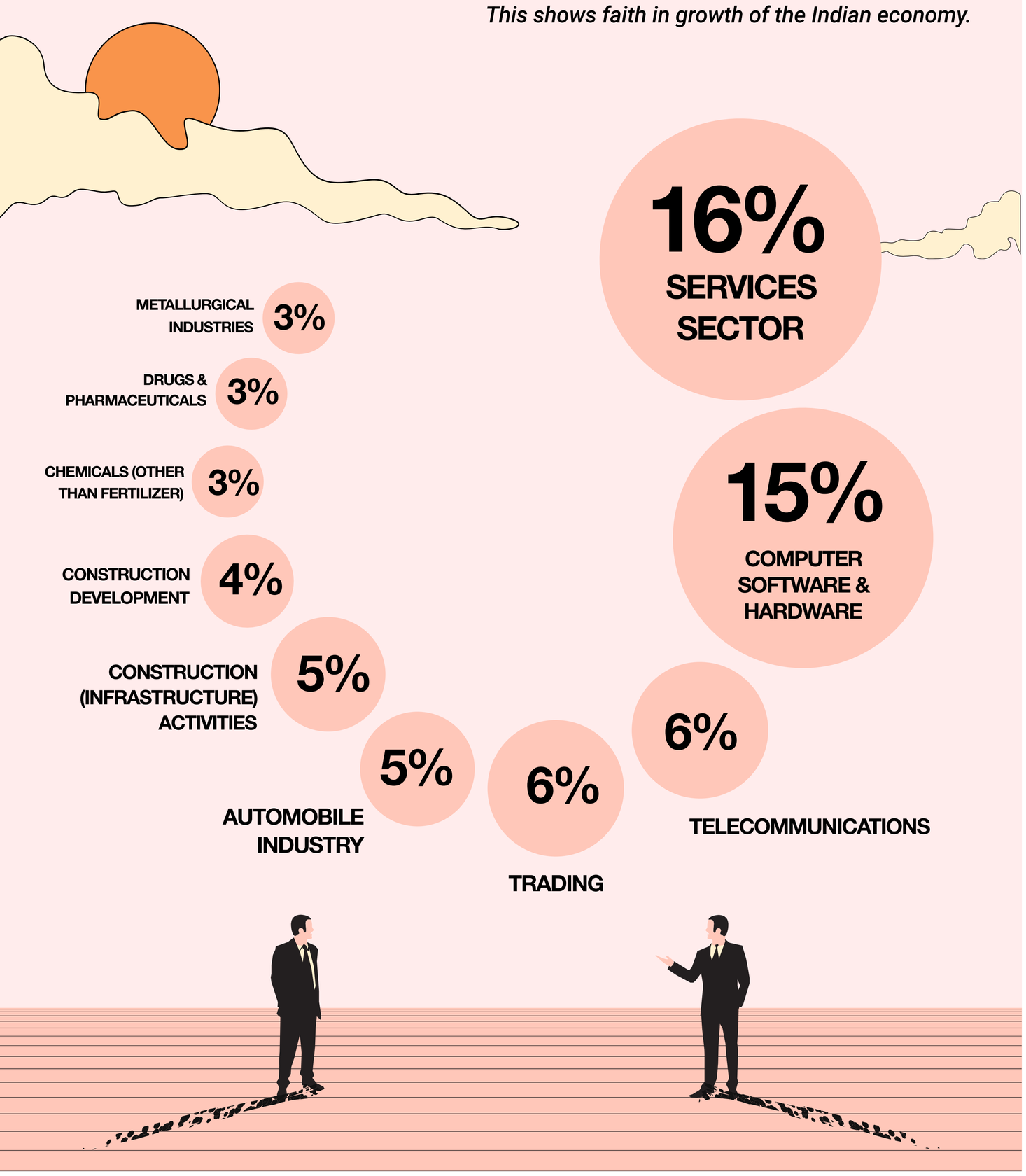
Year	Amount Raised (in ₹crore)	Number of IPOs
2010	36,362	64
2011	5,977	37
2012	6,834	11
2013	1,284	3
2014	1,201	5
2015	13,513	21
2016	26,501	26
2017	75,279	38
2018	31,731	24
2019	12,687	16
2020	26,628	15
2021	119,882	63
2022	59,933	40

NOTE: Only Mainboard IPOs

Source: SEBI

FDI inflows into India

Fund inflows through FDI mode had been highest at $83.57 bn in FY 21-22 along with a further fund inflow of $26.9 bn between Apr-Sep 2022. This shows faith in growth of the Indian economy.



Regulator's Desk

1 SEBI has come up with a new rule for HNIs investing in IPOs which says, 5% of issuance is reserved for small size HNIs with application of less than ₹10 lakh, and 10% is for HNIs who are investing above ₹10 lakh in an IPO.

2 RBI rule for IPO funding became applicable from April 1 2022. The use of IPO financing through NBFCs is now limited to INR 1 crore per borrower.

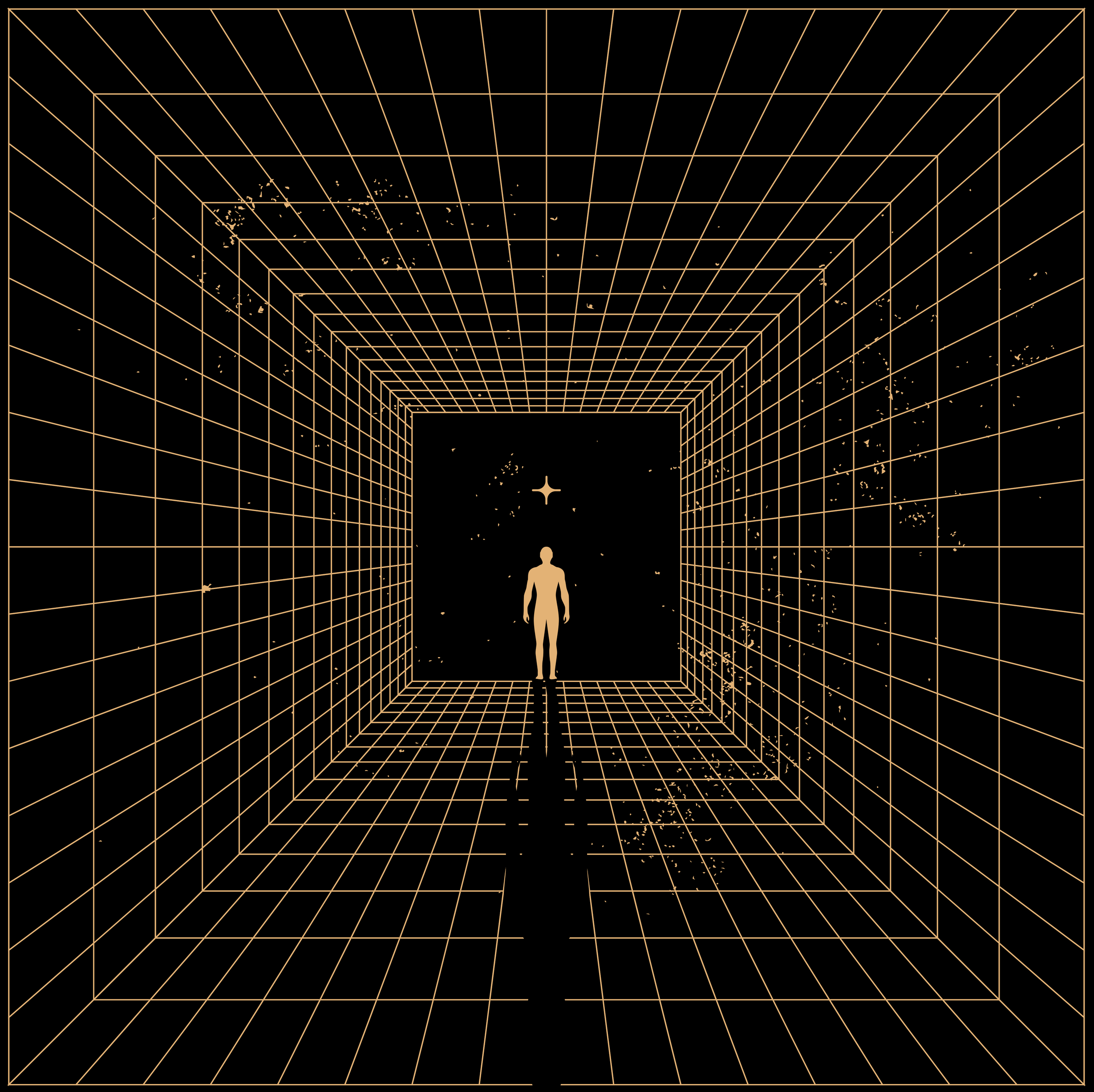
3 SEBI introduced benchmarking rules for PMS curators, aligning them with similar rules for mutual funds. These rules will be effective from April 1, 2023.

4 SEBI directs stock exchanges to create an Investor Risk Reduction Access (IRRA) platform to allow investors to close open positions or cancel pending orders in case of trading service disruptions by Trading Members.

5 SEBI has released a regulatory framework for the online bond platform providers (OBPPs) to streamline their operations. OBPPs are now required to register themselves as stock brokers in the debt segment of the stock exchange.

Yearly Highlights

1. Ukraine-Russia war created a hyper inflationary environment for the world creating shockwaves to the financial ecosystem.
2. Mass tech layoffs create fears regarding recession in the minds of Investors.
3. Major Central banks across the world increased key interest rates to fight rising inflation.
4. M&A deals reach an all time high of $152 bn in 2022.
5. The World Bank has increased India's GDP forecast for the current fiscal year from its October estimate of 6.5% to 6.9%.



May the Wealth be with you

As we say goodbye to another year, we're reminded of all the wealth-generating opportunities that came our way. We're grateful to have been a part of your financial journey, and we're excited to continue helping you build your wealth in the new year. Whether you're saving for a rainy day or investing for your future, we're here to help you make the most of your money. Cheers to a prosperous 2023!

WealthDesk

www.wealthdesk.in