

31-12-2019

*Dear Investor,*

*Year gone by has been a painful one for broader market investors. Fear and panic have reached never seen levels, taking stocks to irrational, throw away valuations. But have things changed in the business environment so badly that all these companies barring a handful of big ones would close operations? It is true that several companies with unviable business models and unsustainable business practices could close down. However, most of the broader market companies would continue to be in business and do well as we move ahead. For small-cap value investors like us who has seen the worst in last two years, things can only improve from here.*

*Market participants are realising that it is time to look beyond overpriced safe haven quality stocks and pick fundamentally strong, beaten down reasonable quality mid and small caps. The valuation gap between blue-chips and broader markets has become too big for anyone to ignore. Most broader market stocks, like our portfolio investments, have fallen on thin liquidity and non-existence of buyers. Any significant, genuine buying interest would push up most stocks exponentially and this space can go from being undervalued to well-priced in a very short time. After the kind of fall seen in last two years and given the irrational level of valuation, it is highly likely that 2020 is going to be the year of small/mid-caps.*

*While slow-down 'fear' is still around, the worst for economy seems to be behind us. Outlook for 2020 is far better. A new economic cycle's foundation has been laid, though it may take some more time to show up on the ground positively. A major factor that has been ailing the economy has been the lack of growth in credit. Cost of debt capital for entrepreneurs remains high despite multiple rate cuts by RBI. This increases probability of government intervention to reduce interest rates. Any reduction in bank FD rates or other small savings interest rates would not only make loans cheaper for businesses but also would attract more money to stock markets.*

*I feel mid/small cap investments – both existing portfolios and fresh investments would see handsome gains in 2020. Once again, I thank all investors who stood with us in these challenging times. I hope your conviction to remain invested and the confidence to add capital at times when the whole world overlooked value investing in small/mid-caps, would be rewarded soon!*

*Wish you all a happy and successful new year ahead!*

*Porinju Veliyath*