

11-03-2020

*Dear Investors,*

*First signs of a real recovery in mid/small caps, that was seen in the month of January, has been sold into following the recent global developments. Corona outbreak and a developing oil price war between Saudi Arabia and Russia has led to a global sell-off. As a badly affected fund manager value-investing in small/mid-caps, the only solace for us in this ongoing carnage is the hope (not just a plain hope but one backed by probability and the theory of mean-reversion) that this would finally end the valuation gap between broader markets and a handful of large high quality stocks. We believe that the recovery that follow would mark the beginning of a new bull cycle and that as history suggests, would be a broad-based one.*

*Corrections and bearish phases are integral to equity investing as they bring long term stability and efficiency to the capital markets. As long-term investors we have no practical executable option to address them other than remaining invested with equanimity, sticking on to the investment strategy which we have been practicing. In Equities, everyone, everything looks right/wrong at different points of time. But beyond these temporary phases of popular perception, patience and conviction on what suits one is what eventually rewards all. For long term success we need to ignore noises and focus on one's chosen path, which in our case is identifying and value investing predominantly in small and midcap stocks, an area which not many funds or analysts explore or practice.*

*Selling on Greed and Buying on Fear are hard to do. In fact, the natural and popular impulse would be to sell and book losses when markets are going down and there is fear all around. Even though this might help psychologically to move on, financially it is not a good thing to do. The difficult to accept, but financially right thing to do in such periods is to hold on and buy whenever possible. This without doubt is what has helped all the successful investors in the long term. Ability to endure the pain of seeing paper losses is the price for success in investing.*

*Hoping for good times,*

*Porinju Veliyath*