Achieving Outperformance in the Stock Market

Breaking Key Myths

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YOU ARE THE MANAGER!

If you want a decent return, you can always put your money with a good mutual fund manager, in a hedge fund, or in an index fund.

YOU ARE THE MANAGER!

- If you want OUT performance, you are going to have to go the extra mile. This session is about what you need to do to achieve out performance when you DO-IT-YOURSELF.
- When you invest directly in Stocks, they are not like MF's, they don't have a manager! The don't manage themselves! YOU'RE The MANAGER

The Key is to NOT think like a professional Fund Manager

If you're going to invest like a fund manager, why not just give your money to a fund manager? This will achieve essentially the same result without the work. Better yet, why not just invest in stock market index funds, which beat most fund managers? The fact is that to outpace their peers, most big fund managers need to learn how to invest less like fund managers and more like super performance traders/investors.

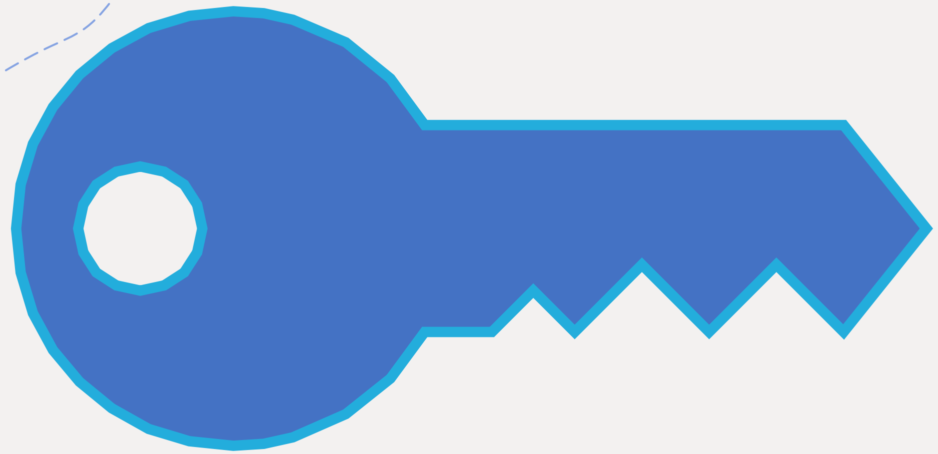
DON’T INVEST LIKE A FUND MANAGER The amateur investor has many built in advantages that could result in outperforming the experts. Rule #1 is to stop listening to the professionals. —Peter Lynch

Let’s break the myths as we find the key to outperformance

For Achieving Big out performance

Make big money when you are correct

Avoid Big drawdowns when you are wrong



Key 1 – Investors must also keep a Stop Loss.

It’s wrong to think Stop Losses are only for Traders

Even the Index has a Stop Loss

- NIFTY also continuously keeps rebalancing its losers

Avoid Big Drawdowns

- Avoid Big drawdowns when you are wrong
- Due to Size Constraints and constant movement of capital, Fund Managers simply can’t keep a Stop LOSS with precision without affecting price is a counter productive way

Use a Risk Reward Relationship to identify your stop loss – 2:1 ; 3:1

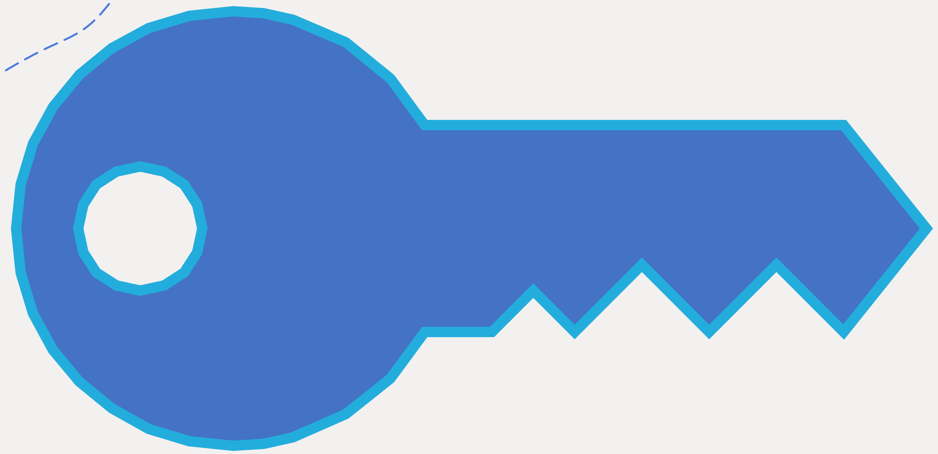
Don’t Let EGO drive decisions

Making the decision to cut your loss in a stock requires that you accept the notion that only you can be wrong; the market is never wrong. This is a very difficult reality for most traders to accept because of the ego.

The ego is 100 percent responsible for you stubbornly digging in, holding onto losses, and not being able to admit your mistakes.

The ego drives rationalization; “I’m in a good company that’s not going to go out of business, I’m not selling.”

Personally, I’m not in the stock market to claim victory that I found a company that won’t go out of business. The Objective is to make money!



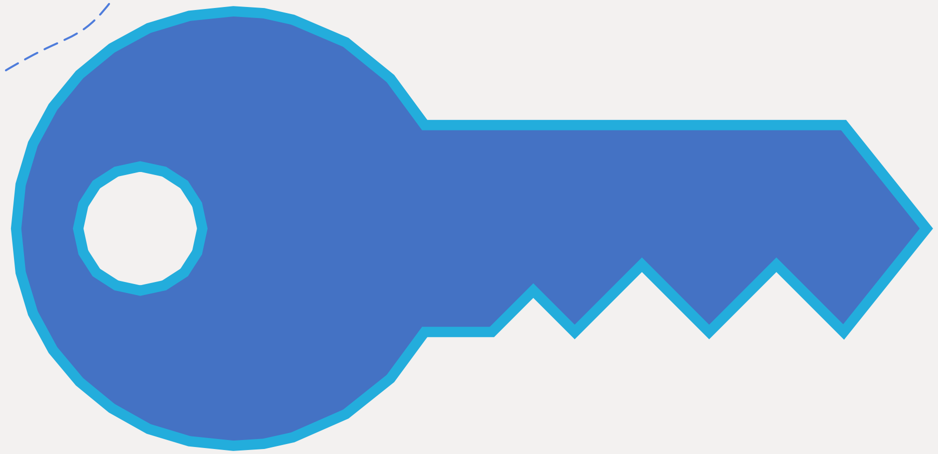
Key 2 – Concentrate and Do Not Diversify

You want to Beat the market and produce Alpha

You will make big money only if you are concentrated at the right time when things are working for you in the right direction.

Even if you have a Rs. 10-crore portfolio, you don’t need more than 5-10 stocks

You may need to diversify to more than 10 stock portfolio only if your portfolio size > 200 crores



Key 3 – Sell into strength

If a stock moves 50%-80%-100% in your direction, you must book gains

You don't have a restriction of being 100% invested can actually move to cash.

A few thoughts about Selling

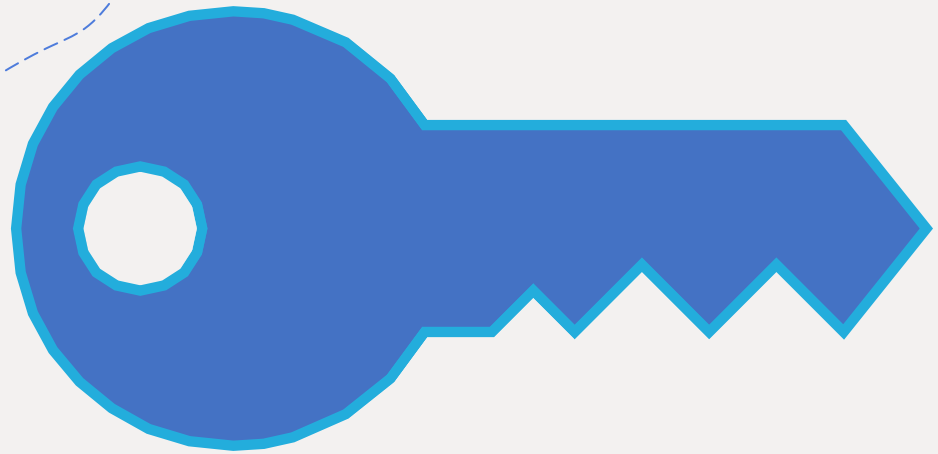
You will never find the top. Not consistently for sure.

Your job is to sell higher than your buying price. Relative comparison of price is of no relevance.

You will either feel regret or indecisiveness while selling

Your job is to repeatedly make money on the winners

RULE OF FREE ROLL

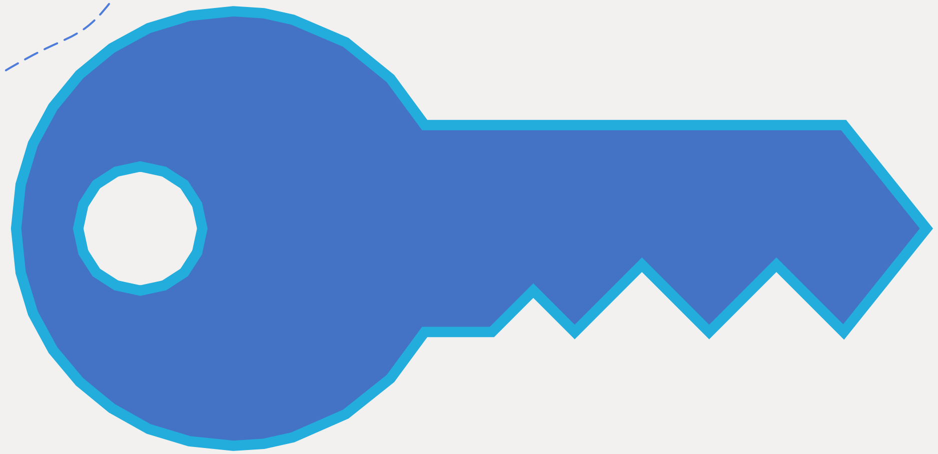


Key 4 – Protect your breakeven at All Times

Once you’ve had a decent gain

Apply the concept of Trailing Stop Loss

Maybe after it moves 3-5x times your risk tolerance for the stock



Key 5 – You don’t need to be a CONTRARIAN hero!

The Trend is your friend - buy only stocks in uptrend

Myth – you need to be contrarian to make money in the market

This thought process is a fund manager driven thought process constrained by size!

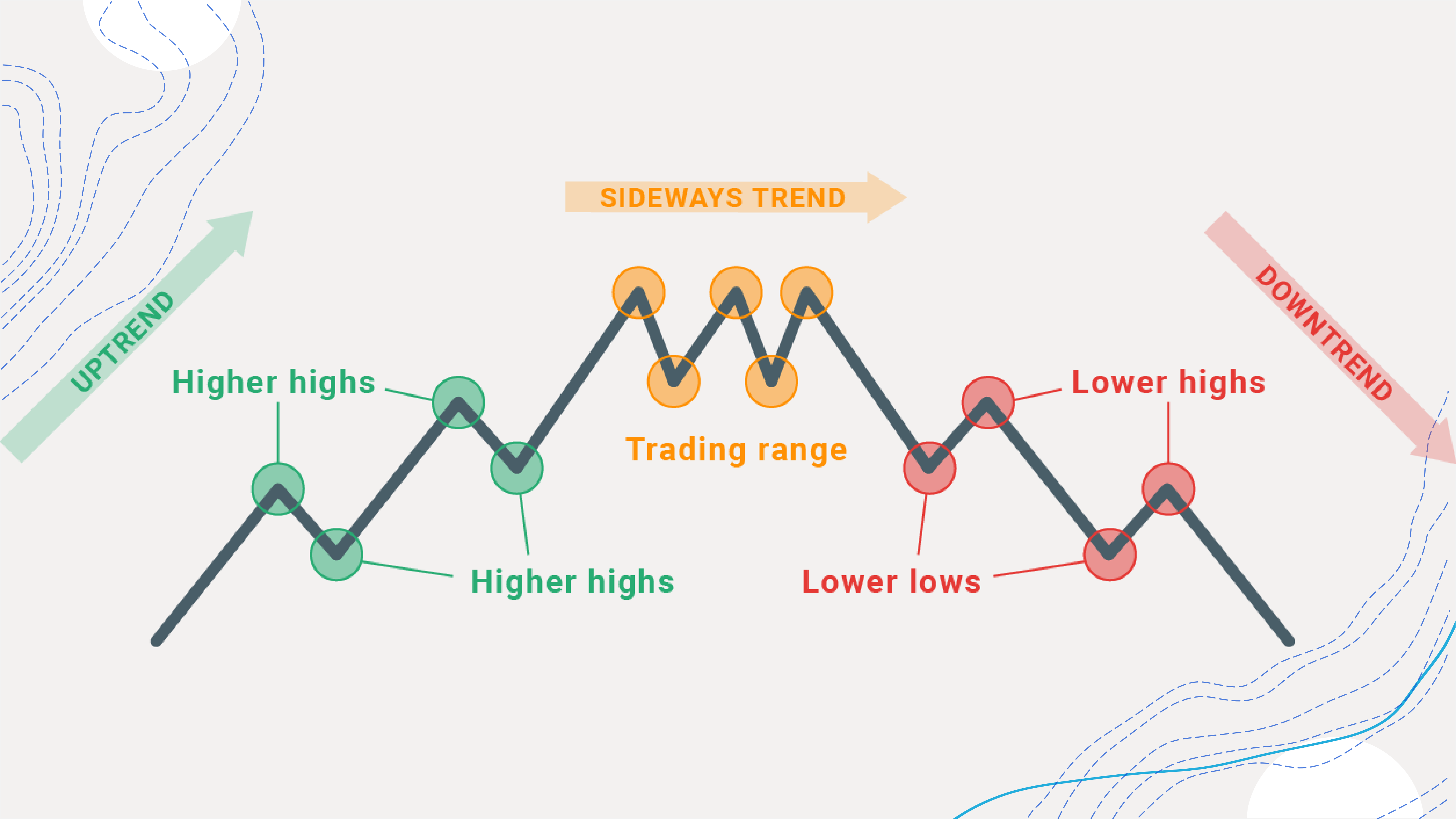
They cannot act with precision of entering at the beginning of a trend without affecting price counter productively.

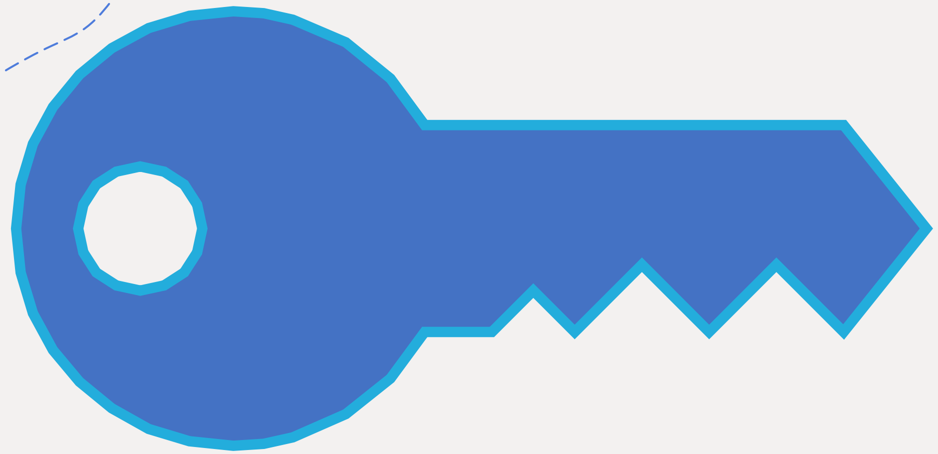
LET THE WIND FILL YOUR SAILS

Having the long-term trend on your side is like sailing with the wind at your back

If there's no wind, you're dead in the water

If the wind is against you, you have little chance of moving forward


SIDEWAYS TREND
UPTREND
DOWNTREND
Higher highs
Higher highs
Trading range
Lower highs
Lower lows

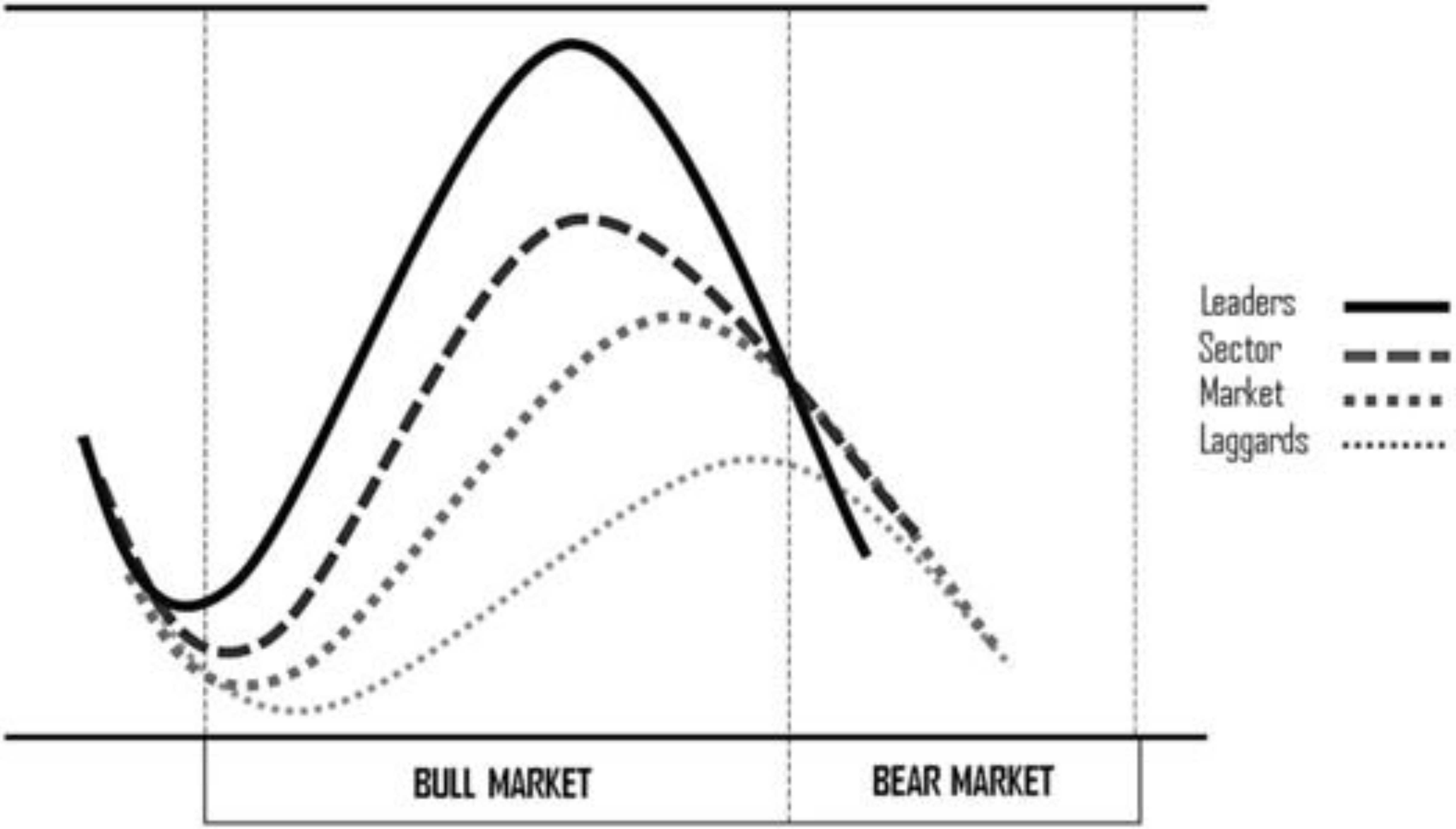


Key 6 – Stick to the leaders

6 Types of companies

- Market leaders
- Top competitors
- Institutional favourites
- Turnaround situations
- Cyclical stocks
- Past leaders and laggards

95% of the money is made here!


Leaders
Sector
Market
Laggards
BULL MARKET
BEAR MARKET

Closing thoughts

- Investing and Trading in the stock market is a serious business. It’s not something you can do part-time!

Most investors treat stock market as a hobby because they have a full-time job doing something else.
However, if you treat it like a business, it will pay you like a business.
If you treat stock markets like a hobby, it will pay you like a hobby, and **hobbies don't pay; they cost you.**