Challenging the Traditional “Value Investing” Notion with Rohit Chauhan

Manish Dhawan: Hey Rohit, welcome to the Stoic podcast.

Rohit Chauhan: Thank you.

Puneet Khurana: Hey, Rohit. How are you?

Rohit Chauhan: I'm doing great. How about both of you?

Puneet Khurana: All good.

Manish Dhawan: I came to know about Rohit from a friend, Anil Veranda, who is a subscriber of his investment advisory. And he was all in praise, and so I made a mental note back then that someday, I would like to know more about him and probably profile him in our podcast series if we restarted. And now that we have restarted it, here we are. Rohit, let's start with understanding your style drift. Now we know that you're a value investor, but within that, there are so many distinctions. What exactly do you do?

Rohit Chauhan: I started with value investing way back when it used to be called Value Investing. Then I started in the mid-90s. At that point, the way it started was that as most value investors have kind of stumbled into it, they started with, came across this book about Warren Buffett, and those days he was not the God, he was the ’Value Investing God’ in the US, but not known in India. So that's where I started. Usually, when you start and you have an engineering background and a quantitative kind of mind, that's where you start off. So it was whatever you know he was preaching quality at a certain price, do your DCF, and this and that. That's how I started. And then it has been more opportunistic. So let's say the 2003-2010 kind of timeframe, and you could buy quality at a reasonable price, you could get good growth with companies like Asian Paints or Pidilite, at 15/17 times earnings. So it was very opportunistic, and then you got the 2008 crash, and things were available on the cheap, these were available for less than cash.

But of late and thanks to quite a bit on your website, I also started looking at momentum, not necessarily that I invest based on that, but I started looking at momentum, technical analysis, and all the others. So, the thing that kind of hit me was that, first, obviously there are other approaches to investing, which do equally well. So there is value in all approaches. But, Second was the amount of time that each of these other approaches takes. So let's say for momentum, the basic philosophy, forget about how it is done, and what are the returns, but the amount of time, at least the quantitative part, that you spend in coming up with a portfolio and the returns you get is the return on that time is disproportionately high, versus somebody doing value investing. You are reading books, reaching out to management, doing this, doing that. It's weeks and months of effort, but the returns often are not very commensurate. So it's a very artisanal way of doing it. So again, I started off as a value investor, and that's how my blog and everything is, but now I don't put myself in that box. My thought process is to look at what works rather than getting too religious about something and too touchy about one specific approach. So that's how it is.

Puneet Khurana: You said your effort-to-reward ratio was skewed a bit, and you realised that it's much higher if you do the other parts of things. Before that, let's bring the chronology to this whole transition also. Just for the benefit of the listeners, you have already mentioned it multiple times in your various interviews, but what was the year you actually started investing?

Rohit Chauhan: Again, it's usually never a bright line, but I would say 1997/'98. So I'm ancient by most standards, and some of your listeners might be toddlers at that time. So you can guess my age. Yeah, 1997, '98, Economic Times, just the start of the Internet era, you can call it that.

Puneet Khurana: And if I'm correct in reading this, and what I have seen in your blog also, you started more towards risk arbitrage, primarily special situations that were one part of your investment profile, so to speak, obviously, besides the normal value investing. So, is it fair to assume that you are more towards Grahamian kind of investing or the other part was more towards value at a reasonable price, which is Warren Buffett's way of doing things, and the other was special situation. So what was the mix in the initial part of your career?

Rohit Chauhan: Actually, I've been all over the place when I started. Core was always the Buffet style of investing. The others you know, were always to explore all possible opportunities, if you may. So I was looking at special situations and also at Graham-type of ideas. At that point in time quantitative or, again, this is a bias that I've seen. I realized in myself and I've seen in a lot of other value investors that they almost take value investing as a religion and say, 'Trading is not good; I should stay away from momentum'. I don't find it smart to do it that way. So right from the early point, I started with the Graham, because that was very natural to me, and I think that was very important. I was comfortable sleeping at night with that. So, I started a little bit of special situations, but I just dabbled a little bit here and there on it. It did not go beyond that because of the amount of time and mind I put into this while I was doing my full-time work. So, the amount of time and effort one has to put in special situations and all kinds of stuff is far more versus the returns they generate. So I've always been a proponent, and I've worked backwards, I have so much time, what can I do, what is the best I can do with the limited time I have? So the special situations bit of it, the same thing around Graham. I may make a return. But it's way too much work, you find pretty crappy companies, somehow buy a boatload of it, and hope some of them work, which makes your stomach churn every quarter when you go through their conference calls and their annual reports and everything, and then hopefully a few of them will work out. So that was way too much. I used to think of it like the cow method, you eat a whole load of grass, and then maybe a little bit of milk comes out of it, and it is not my cup of tea. So I gave up all of that stuff over time. It is just a natural way of exploring stuff, reading, figuring out what's happening, and then trying it out, and then some sticks, and then some just fall off. So that's been the approach. No grand approach, or any major thought process that this is the road I should travel, it's just exploring stuff, figuring stuff out, and then dropping what does not resonate with me.

Manish Dhawan: So essentially, Rohit, you are saying that your current style drift can be termed as opportunistic, is it?

Rohit Chauhan: The core remains the value approach, but then I try to look at all other approaches and kind of step back and think of the mindset behind it.

Manish Dhawan: I think you're answering it already. I wanted to ask, how are you aligning all of these things together?

Rohit Chauhan: Right. So it's still a work in progress. For example, when I look at momentum, the first thing which comes to my mind, if I look at it, coming from a value investor's vantage point. A couple of quick things which are coming to my mind: One is the whole concept of business momentum. So there is definitely some business momentum that is happening. Now it could be business momentum, it could be some kind of behavioral momentum. As I read through the books, I realize a lot of academics are trying to dissect it. I just went beyond that and forgot about why it is happening, at least let me understand what is happening. So I could see that there is a concept of business momentum, and then there is a behavioral momentum. So, again, how does that play out when you're investing? And a lot of times, value investors like me will ignore that and say, let me just buy a stock, which is cheap, and then keep my fingers crossed, and we'll all work out. But if, for example, there is no momentum behind it, then you could be waiting for a long time. The Second was very simple. A very simple formula and then one study, which really hit me some time back and I don't remember where I found it. Some professors did some analysis for the last 25 years in India and found that momentum strategies had outperformed value in everything like 800 basis points per annum for the last 25 years. So that really hit me. If such a simple strategy is outperforming all the other works, which you're doing, and if you can get so much, that led me to look more at quantitative kind of investing. So now, I think I can use these quantitative filters to at least filter down stocks. In the end, it's all about getting the odds in my favor.

Now, again, I may not go with momentum because momentum requires a different mindset. It requires a higher churn. You need to know when to get off the train and all that. But at least I need to be aware of what all other investors are thinking when I'm looking at a company. And if I have it in my portfolio and it goes bonkers in terms of price, at least I should know how the other participants are looking at it. So that helps me inform my buy or sell decision. So again, the same thing I have looked at traders, What is the mindset which traders possess, and I think the number one mindset is that the traders have an exceptionally good mindset around risk management. Value investors are like… Again, I know I'm kind of crapping on value investors, and there's a lot of good in it. So being a kind of lifelong value investor, I think I get the privilege to criticize it because I still practice it. But then there is value in learning about, or, at least understanding the mindset. So value investors, for example, traders, have a very great mindset around risk management, constantly thinking about risk. I've been in a way guilty of not looking at risk as closely when I'm doing long-term, it's always buy and hold and praying that it will all work out. So, that's the drift, I've been moving in that direction. Again, I had a few major failures in my own portfolio in the last three years and that pushed me in that direction that there is a blind spot, so let me explore the blind spot. Why am I not able to figure some of these things out using the mental models or mindset from a value standpoint? So it's always that if something doesn't make sense, and try to figure out why that's not happening.

Manish Dhawan: So, Rohit, I would like to drill a little deeper on this topic, if you don't mind because mixing value and momentum it's easier said than done. Can we bring home the point by probably giving a couple of live examples as to where you've been able to align it successfully, say, buying based on value and riding based on momentum, or whatever your strategy is?

Rohit Chauhan: So I'll step back, the way I used to do it earlier was let's say, I pick a company. So I'll take an example, and again, the usual disclaimers, it used to be part of our advisory and hopefully whoever is listening to it understands that this is just for discussion purposes. So, IEX, a great company, it's a power exchange, and hopefully, all listeners know about it. It's the number one power exchange in India. My way of looking for ideas is not to just run filters. It is to just look around at something, maybe you would even tweet on your Twitter, or anybody tweets about any company and I look at it. So I looked at it, and at that point in time, the company was maybe selling at 30, 40 times earnings or something like that, but had a lot of business momentum behind it. Post-COVID, a lot of industry was coming back, power consumption was rising and these guys were reporting exceptionally good results because of operating leverage and because of some amount of business momentum. Now in the past, if I was just looking at it from a value lens, what I would have done is say this is 50 times earnings, So, a complete NO because it violates some preconceived notion of how much the valuation should be and I would have ignored it. But this time, at least now what I've started doing is that there is more than just looking at valuations and making decisions around that. It has its own purpose and its place, but not in this case.

So, I looked at IEX and felt there was business momentum behind it. It was doing well. So I started a position for myself and again for my subscribers. Now after that, the stock goes into a different orbit. It just took off in a few weeks' time itself. And, again, Manish, I follow you on Twitter and keep looking at what you guys talk about momentum, and then when I started looking all around, I knew a few other folks who do momentum and it started appearing in the momentum portfolio. So as it just started appearing, the stock started taking off. It went from 50, 60, and at one point, I think it hit maybe 100 times earnings or some very crazy valuations at the peak. So in the past, what I would have done is I would have gotten nervous very quickly, and I would jump off saying that this is at the higher threshold of valuation. Just get off. This time, I said, let me think about it both from a momentum and trader's mindset.

Again, I don't use stop losses, but at least mentally I need to start thinking in terms of stop losses. So I was thinking that at what point I should get off. So, instead of looking at it once a week, a month, or a year or something like that, this then got into a very close watch of a situation. And then as traders say, it went into a climactic blow-off. It just took off. And at that point, I still remember some of the books I've read, that at some point, all the news will be great, and everybody will be just completely thrilled. You would always see everything great ahead. So I did a reverse DCF which is again, what value investors do, and did some reverse calculations. I realized that if you look at it from a fundamental standpoint, the market seems to be valuing this company for 2030, 2035, or some godforsaken horizon. So at that time, I felt, now this is completely in momentum and the risk-reward ratio is not favorable. So at that point in time, I started exiting.

So, in the past, I would have never looked at company A, and I would have never gone ahead with it. But now, at the beginning it was on the threshold of a good company at a slightly higher valuation, with a time horizon of let's say, it'll work out in two to three years. But then momentum gives you that pop. It suddenly took off, and at that point in time, I just hold on knowing that it's now not under the control of value investors, maybe it's the momentum guys who are running with it and nothing bad or good about any of these things. It is the way it is. So, I just stuck on with it and luckily, this was one of those ones where I use momentum on the plus side. In a reverse case, I've spoken about this on a different forum. But another position we held was Sequent, and roughly around the same time, but I ignored this. It took off in the same way and I again got stuck in the narrative, and then as the numbers turned, the stock crashed hard. So yeah, it makes a lot of sense to have these viewpoints so that you know what is influencing the stock at different stages.

Puneet Khurana: But Rohit, let me try to give a different structure or framework to what you just said because what you just said, sounds to me not momentum, or rules of momentum, but it sounds more that you are comfortable with the business might not be comfortable with the valuation front, but you're comfortable with the business, so that is the first standpoint, you're not chasing any stock, which is moving. You're saying okay, business-wise, I'm comfortable. That is your starting point. And then you're saying, okay, let me not get bogged down too much with the valuation number, if it is not crazy. But if it's in a reasonable range, but since I can't define reasonable, I don't want to have very stringent parameters, which sounds very similar to what the majority of people who talk about quality premiums and there is no good quality premium number and if you buy a great business, you will always end up making money. That part of thinking is looking more toward that IEX story at least, which I could see. So, are you saying that if the business momentum would not have been continuing, but the price momentum would have continued, you would have still kept your position on? Am I reading that correctly? Because then you're playing momentum also parallelly.

Rohit Chauhan: So, I will break it down in this way. Earlier, I only vaguely heard about momentum. I have not even read about it, not done enough workaround. I didn't even try to understand it well enough. So, the first step was to understand what momentum is all about, understand how momentum investors operate, and read a few books about it. So at least that was the first thing to be aware of the rest of the universe of how things operate. So, that was one part. Second is again, in this scenario, the stock already was beyond my normal range of comfort, but as you were saying, it was on that higher end, where it is getting into that kind of momentum. Now, in the past, what would have happened is that as soon as it hit a certain upper range, I would get off the train because I did not understand and it was a blind spot completely. I would not understand momentum at all and trading was quote-unquote, a bad word for me, which is the wrong way of looking at it. Hopefully, smarter later than never. And then, at a certain point, I realized that this stock is now not a value stock, it's a momentum stock. And how do you know? Typically again, you will have to pardon me if I don't get the specifications right, but how does momentum operate? Let's say there's a nine months duration, if you want to hold a momentum stock, the best window is look back periods, let's say 15 months. So the best period is, let's say, 6 to 15 months or something like that. So, looking at that mindset and saying, if it's moving into that momentum phase, let me just hold on to it. And at the end of the day, you're making money, whether you make it through momentum or value or whatever it is. It's not like you're doing some major surgery or something.

So at that point in time, it's just a matter of changing my thought process around the company saying, this is not about the business fundamentals, because all this happened within like three to six months period. The fundamentals did not change as much during that period. It was doing well, still doing fine, and will continue to do well. It was just a few, let's say quarters of base effect, because obviously, this is mid-2021 so the base effect was coming in, if you compare it with one year back, the numbers were much better, because 2020 was the lockdown period. So numbers were good, but it got into this whole momentum, slow. And using that lens, at least, I was able to hold it for, let's say, a couple of more months, and an exit at the right time, and then I ignored that in sequent. So, that's the other thing. Sequent went into that mode and I kept thinking about it. I'm thinking from a three to five-year standpoint, and what I did not realize is that once it moves into momentum, a small pin can really prick the balloon. So if you don't get off that particular stock in time, then you're going to pay heavily for it. And that's what I did over there. So I don't use momentum to filter ideas out because if you're trying to blend the two it will not work either way. If you get into a momentum stock at a late stage and say okay, I'm going to hold this, for three years, you gotta shoot yourself in the foot, but it's being aware at a certain stage okay, like, what flavor it has moved into and can you squeeze a little more juice out of the whole thing.

Puneet Khurana: I got that, but just one clarity on the last part you mentioned. Sorry, I missed that. I think you said, you move out of your position when the momentum turns against you, the business was doing fine, that you said, but was that…

Rohit Chauhan: So, at the last stage, I switch my hat saying now this is the moment that I don't use any formulaic way of exiting stuff on which you should do if you want to get onto the momentum mode. So at that point in time, again, this may sound blasphemy for a lot of blue-blooded value investors, but I switched my thinking to that of a trader's mindset. At that parabolic stage, forget about momentum and forget about value, this is a trader stock. Typically at the late stage, if there is a blow-off, what should you do? Start taking your money off. I said now, forget about it being a momentum stock and all the other stuff. It's now in that parabolic you know, the valuations are through the roof, nobody's looking at valuations and everything is all bright and sunny, and it's all positive news. So time to start getting off the train and that's what I did. Now again, it looks all nice in hindsight for who knows right beyond that, it would have doubled over there also, but at a certain point, I had to make a call that enough is enough. If it is selling at 100 times the speed it is at such a valuation, I can't sleep well at night. So I just exited at that time. So it's just changing hats. I'm looking at that idea at that point in time.

Manish Dhawan: Yeah, the interesting thing is, in this particular example, it's not just blasphemous for the value guys, but probably blasphemous for the momentum guys as well. You kind of got the best of both worlds because ideally, a momentum guy would probably be willing to give away, let's say 30% from the top because they sell while the stocks coming on their way down and never selling into strength. So you in that sense got the best of both worlds.

Rohit Chauhan: What I would say is if you bring another variable, which is again, I just keep thinking about these different threads or ways of investing and try to see okay, what do they bring to the table, and the thing which I would say on momentum is that it is again, you will have to correct me here if I'm getting some part wrong. But if you're running it, let's say through an algorithm or a formula, and all that you have to do is, let's say spend a few hours non-discretionary, discretionary whatever automated, right? If I spend three hours, and I get this return which is 10%, over and above the index, what I'm doing is pulling charts out, looking at this, looking at that, I mean, there is a lot of value to time. So in the end, if I get all of that at 1/10 of the time, let's say, if I turn the clock back completely 25 years back, and if I had a very different temperament again, it comes down to temperament also, but if I had a very different temperament, and I was just purely looking at it from making money, and I realized, doing momentum, doing these three hours a week or something, some automated system gives me a slight edge of 2 to 3% over the index, I would happily take it. It's not batch, I'm not trying to be a Buffet or anything, who will make a billion out of it. In the end, it's like, okay, you got a little bit of edge, but I spent a much less amount of time. So if I come back from a time standpoint, one of the most efficient ways of doing it would be momentum or quant versus all this mumbo jumbo. So, again, a lot of us including myself do it because we have fun in it. I'm not trying to maximize the efficiency of it. So maybe that's your counterpoint, I would say.

Puneet Khurana: So, Rohit, let's do one thing, I had a few more questions about the things you just said, but instead of asking them right now, I'll probably give more structure to our conversation from the perspective of a new listener, or a beginner, or somebody who's trying to learn to the processes. So let's divide the whole, you know, everything in investing ultimately is about buying, selling, allocation, and creating a portfolio. You run a Portfolio Advisory. So all those decisions have to be kept in the context of the portfolio itself. So let's first take the first aspect of your investing, which is the Buy-Sell engine. Let's do the buy first. How do you screen your companies, what are you looking for in the ideas you're investing into? So I mean, whatever your criteria are, and when you're looking for those criteria, what

things do you give more weightage to and less weightage to because there's always a prioritization of the checklist one has to do in his mind? So, let's start with that first.

Rohit Chauhan: Again, this has evolved over time. Maybe 20 years back, simple screens, simple formulas would work, I would run a very simple screen, again, not automated screens, but I would run a very simple screen saying ROCE greater than this, and P/E less than this, and so on and so forth, and Marico and Pidilite, and Asian paints will just pop out. And I would be scratching my head thinking. And by the way, I used to work in Asian Paints, and at one point, had a very close friend in Marico. So I would be scratching my head as to why this company is selling at 15. So that was a different era, obviously. As times change, you have to adapt to that. Now anybody can write a filter in like a minute or even less than a minute and all of those ideas will pop up. So I stopped using screens, maybe 8 to 10 years back. Again, the same thing, after a certain point, if you looked at decent companies, if you looked at reasonable valuations, what you would usually find is anything cheap had some problems in it, and it would usually be a value trap. If I was looking at a good company then the valuations used to be, and I think it's natural, it's the new normal competitive sense in a market, and no use complaining about it.

So I moved more into an ad hoc kind of approach now. A multiple filter, one is let's say I'm looking at a particular sector. So let's say, I would be tracking the auto sector through its own index, or I would be tracking the IT sector and things of that sort. So I would keep looking at the sector and as I read through the reports and some of that stuff, I'll start looking at some of the companies. Second would be a lot of it is just exploring around, just reading far and wide. I would be listening to some podcasts, and watching some videos, and some company would come up and one of the more important filters I use is that there's a lot of content that is now published by pretty hard-working investors, who do a very good job at filtering the companies out. So they would put a video out saying these are my top 10 ideas or something people will talk about companies on Twitter. And the first thing I will do is I will pull up that particular stock and maybe use the first 10, to 15 minutes not for a selection, but more from a rejection standpoint. Does this company make sense? Now, again, earlier it used to be a far more quantitative way of looking at it. A company is so valued, so let me not look at it. But now I've widened that window quite a bit for the simple reason again. I think the benefit of reading some of the academic research is that the next two to three years' returns are anyway not correlated with valuations. So when I read that, I realized, okay, why should I put a filter of 25 and 30, when it is anyway, not going to matter? So, again, it should not be crazy expensive, like if it sells at 100 times earnings, I just cannot get confidence in those companies. I will not be able to sleep well. So no matter how good the business is, I kind of tend, but beyond that, everything is fair game.

So from there, the analysis is more about rejection than selection. Keep looking at the company drill down. So looking at the numbers takes not more than 5 to 10 minutes. You can go to any of these top sites, I use a screener, basically, I used it personally for a long time. It's an extremely good tool. So I use that to look at the numbers. The next thing I would do is look at the PPT, look at the annual report. What I'm trying to do at that point is I've been guilty of that in the past of getting lost in the forest instead of the or whatever the trees instead of the forest. Try to get the big picture on it like, what are the three or four things which really matter for this company? What are the key variables which are driving this position, and can I kind of get a handle on it? So let's say if I'm looking at a metal company, let's say it's a steel company. One is obviously, once it has started appearing in all the forums and everything, maybe it's too late. So when I'm looking at that company, and again, by the way, I've never held a steel company, because that's not my area of competence. But if there is a China factor in it, and I cannot figure out what China will do or will not be able to do and that is going to drive the thesis, then there's no point in looking at it. So, I'll do that type of analysis and try to see what are the main variables, am I able to figure that part out? And after that, usually, what I'll do is, after I've read all of this, I will leave it aside for a few days. Because what I've discovered over time is that initially, my feelings about the company or the optimism, or I would be feeling very good about the company, and if I take a decision at that point in time, I'll jump straight into its start-up position and get myself logged on to it.

So look at the company, study it, put it aside, and get onto something else. Then come back a few days a week or so later. And one thing, which I found to be a good exercise is to start putting a mind map on it. So take a piece of paper, and draw it out, I have my own way of laying it out, put the key variables, and just think and mull over it. And again, not a very scientific approach to do that and at some point, what I've seen over time is that in spite of all the maths and the numbers, you see it often it just comes down to a gut feel. Often that gut feeling works out, sometimes it doesn't. I used to have a very elaborate Excel, spreadsheet and all kinds of checklists, but I think I've realized it's an overkill. And at that point in time, I'll just start a small position. I usually won't take a big position, because again, I come down to the same thing that it'll take much longer for me to get really comfortable, understand the risks and everything. So not a very structured process but that's broadly how I follow. And then if I think there is something missing in the company, I'll put it on my tracking list, and then come back to it once again, some video would pop up, somebody would make some comment and that would connect the dots. It comes down to more around connecting the dots at a later point in time.

Puneet Khurana: So for the start, you're saying your way of screening, the companies have moved more from quantitative to some other commonsensical methods. You're saying, you're looking at some small investors doing their work, you're taking ideas from there and then doing your own study. But you also said something about the index. So I just wanted to put across that point in a more elaborate way. What exactly did you mean when you said you were looking at the index? Are you looking at index valuations and saying okay, this index is now approaching the zone or what exactly are you doing there?

Rohit Chauhan: So, this is going to be again blasphemous for value investors. But you have the whole trader's approach of how they look at stocks and how traders look at it. I don't look at it at a stock level, and the index is constantly dropping. This again comes back from my prior experience. I've bought companies, and then long-term buy and hold, and then I've sat on it, and I've sat on it and waited for it to turn. It has never turned. So I was constantly thinking, like, if the numbers are right, and the valuation, I'll give you an example, Manappuram Finance. I used to hold that. The valuations all seemed great, the numbers were fairly good during the period, which I held, and the stock just went nowhere. So it passed all the filters, it passed all the checklists, and still a huge amount of opportunity loss. So this came to a point of, I have all these opportunity losses. Timing is sort of a no, no in value, but again it's important. You can't just block your capital for two years and hope and pray it all works. So again, I started looking at how traders do it, how momentum guys do it, and what I found around traders is that they're looking at how the charts are moving and moving averages and all that. So what I would look at is, not a way to filter stocks out, but a way to avoid a sector.

So let's say IT is on its way down, and it is constantly hitting the index, let's say below the 200-day moving average. So forget about okay, has it dropped from 30 P/E to 20? If P/E is not correlated, then what's the next way of looking at it? Maybe it's charts again, these are all thoughts, I mean, I keep changing the way I look at it, but what I found is that if all the stocks are on their way down, and the charts are on their way down, then let me just wait, let me look at that particular sector, read it, understand it, but I don't need to make a decision, I don't need to pull the trigger on it. So I'll wait for it and I'll wait for all the selling pressure to go away, and then as traders say,' the stock is in just a trading zone,' okay, then let me get a little more active. And maybe as stocks, and as the industry kind of starts settling down and people are losing interest, then towards the later part, start looking at creating a starter position. In the past, I would do my usual hero jump, Oh, the stock is going down I'm smarter than everybody, it's getting cheap, nobody understands it, it keeps going down, down & down, let me keep averaging down. Then over time, I realized all this, I'm not Buffet, so let me not buy stocks which are dropping, because I'm definitely missing something and the market is smarter than me. So just nicely watch, watch the sector, watch the companies, and wait for things to settle down, wait for the selling pressure to go off, and then start looking at it when it gets into those trading ranges. So, again this is whichever way the trader approaches it, look at it from that perspective.

Puneet Khurana: I will come to the position building later also. But just to solidify what you just said, are you saying that adding to a dropping stock or basically positioning upon the force to falling stock is something you have stopped doing?

Rohit Chauhan: Yeah, completely. I used to do that, not as much, because this phase, which I've always kept in my mind when my position is dropping, and I've seen a lot of people, average down is the first thing to do when you're in a hole, is to stop digging. So as soon as my position starts dropping down, I think the one smart thing, which maybe I would have done in the last 25 years of my investing is 'never average down'. And I think I cannot recommend it enough. One thing for the super investors and all the other people do is, at least in my case, I am aware enough.

Puneet Khurana: I think it also matters with the size of capital you're managing and all that stuff.

Rohit Chauhan: Even when I had barely anything, I've never averaged down. I'll have a cap saying okay, my usual positions will be excised. And once it hits that, that's it. You know absolutely no averaging down, and then a few more experiences in the recent past. And then what I've seen happen in the last two years in the US, India, and in other places where all these high fliers or SaaS companies and the technology stocks went into a nosedive more and more it has just firmed up my view that absolutely no. Again, I will not die a billionaire, but then I also don't want to die completely poor or become poor in the interim. So it's, again, a risk management approach, if nothing.

Puneet Khurana: Fair point. So just again solidifying for the listeners, you're saying that when the index point you mentioned is not really for the selection part that only…

Rohit Chauhan: It’s a rejection.

Puneet Khurana: Yeah, it's rejection, and it's also, in some cases, a falling sector might entice you to look at the sector, but you're not going to buy it at that point in time. So it might act as an initiation point, so to speak, for your study, from a sector perspective, and other companies, your boring ideas, also from other smart investors, and I'm pretty sure, after so many years, you know a lot about a lot of companies, at least a bit about a lot of companies so some ideas also flow from there and so on and so forth.

Rohit Chauhan: Yeah correct, and I will even come back to the companies which I have held in the past, and then it pops up on some screen. Then again, I have a continuous running list of companies, which I'm looking at and tracking, any point in time would be 40 to 50 Companies looking at it. Then, I have like a wish list, which is like the bluest of the blue chips, which I have kept them on the side and I said, ‘If the world goes to hell for a short period of time if the world doesn't end after that, like a COVID 20, or 2008, and then these are the Companies I would love to own.’ So just making the supply chain tighter.

Puneet Khurana: I have a lot of questions on those wish lists, I will come to those. But let me also bring one more point to this selection part. So these are only your screening criteria. Let's also now look at your evaluation criteria. Now, I remember, I think the last time we met was somewhere eight years back, we had a discussion around checklists, and forensics, and quite a lot of discussion on those points. And we discussed a lot of things that were there on your checklist. And it was a huge list if I remember correctly. I think from 18, 20 points or even just the psychological checklist head around 18, 20 points, the behavioral checklist, and then a lot of business checklists. You passingly mentioned that that was an overkill. So can you take us through the evolution of what used to be on your checklist, and what parts you realize that was overkill, and which you realized were actually good points to keep and you still keep them, or you don't keep them whatever your current process is in terms of evaluation?

Rohit Chauhan: The way the checklist got built is that I started, and this was an era where you would not get as much data, so you have to painstakingly pull an annual report and read through it. And then I would put those numbers into a spreadsheet. Then every time I would read a book, or I would come across some concept or something, I would plug it into that spreadsheet. And then I started this, let's say in early 2000, over the next 15 years, it just kept growing and growing and different tabs. And I know a few friends who make fun of this spreadsheet saying ‘You have this 60 tab Excel.’ So it just kept growing. What took me to a point where I thought it was overkill because after I had done all this work, and then I still realize that the success. So again, I'm a very meticulous record keeper of my own investments, what is working, what is not working, what is the success rate, and what is the failure rate, when I correlated I looked at the ideas which had failed and then I looked at my process, I realized that doing all of this had not improved the success rate. So that was the first trigger.

So the second thing, which I then came to is okay, what are the parts, which do I really need to go through all of them? Now if I break down the spreadsheet, it was more, let's say, taking down all the quantitative numbers that were one aspect of it. The second is, let's say the behavioral aspects. The third is the business model. And fourth would be the DCF. And fifth, let's say, would be the accounting piece of it. So the first thing which went out of the window was the valuation piece. Now, I would do this whole elaborate spreadsheet about DCF and this multiple, and that multiple all that, I just threw it out because it was not adding value. You can put whatever numbers you want, and you can make it all work out. So I threw that right away and started thinking in terms of more like ranges and probabilities, instead of agonizing over 30 times P/E and 28 times P/E, I just look at ranges and see where it is. So that part went out right away. The second part, which I think through, but I would not sit and type into it, is the behavioral piece. No matter how many times I wrote it down, when the time came, it was very tough, just to look at that checklist and behave in a different manner. So I took some of that behavioral stuff out. What I have added more is around the management piece, which is more around that it has now become a negative checklist. Are there any red flags, which I should be looking at? I will check it against those red flags. So those I have, don’t go away.

What I've emphasized further is, how well is the management executing. So that's another thing which I realized over time. Once you get the basic idea of the business, the industry, fine, it all comes down to how all the management is executing. And the best way to do that is to look at what they have pulled out of the last 8 to 10 years of annual reports. Look at what they have said, and what they have finally followed through. So that part, I continue to do it. I would look at what they had, let's say, committed in 2008, or 2010, or 2012, and then follow through. So I still use it. I don't meticulously update every tab and everything. It's more kind of just quickly running through it. And again, comes to the same point that if you are going to spend so much time on this spreadsheet, is the ROI on that time good enough? So there are aspects to it. Some aspects, I've just dropped it and some of it becomes second nature also. So you don't have to keep typing all of that again and again. But at the end of the day, what I am trying to come down to is that in a buying process, how quickly can I zone into the key variables of that business? And if I'm, let's say, looking at a bank, instead of updating 20 tabs, the first thing I'm going to look at is what is their cost of funds. Are they able to keep a low cost of funds in their operations? Second is how they think about risk management and growth. Is this a management which is crazy about top-line growth, if they are today or tomorrow, they will blow the institution up because if you try to push beyond a limit, no matter what, you will do crazy lending, and then you will blow it up. And the third is obviously around their credit underwriting and everything. So if I can zero down those three or four variables, then I can drill down instead of wasting my time on all kinds of peripheral issues, which may or may not be important for that business. So that's how it has evolved, you know, try to get down to the crux of that particular idea more than anything else.

Puneet Khurana: Understood, and I can relate. But what you're essentially saying is your checklist is now much more prioritised. Instead of giving weightage to all the points, you are now looking at a few five, six major checklist points, which are very important. And I think those will also have some variations vis-à-vis the business model and vis-à-vis the companies you're looking at. I mean, I can fully relate to that whole process. With years, your checklist becomes. I think I have told you that the difference between a novice investor and an experienced investor is that for novice investors, all the checklist points are equal. It's not the question of number of points, I think everybody can now get a hold of hundreds of checklist points to have. It is just a matter of you learning to prioritise, pertaining to that particular company and business. So my spreadsheets are equally big, very big number, but then my work is very mild. My reason for having that is that I have decided to convert a lot of qualitative questions which people generally have and try to see more of those coming from the numbers themselves. So like Rohit, you mentioned that I want to see the execution of the management. So I tried to build elaborate models around capital allocations using the cash flow statement and try to get a lot of answers from there only.

So eventually, every cash flow line item can be categorized. I mean, it's ultimately a source of funds or an application of funds, not from an accrual basis, but a complete cash flow basis. So when you do that you differentiate between one-line item as either source or application because it is negative. If it's negative, it is going to be an application and otherwise source. So when you do that, you are able to bifurcate the sources and application year on year and on a cumulative basis. So what I do is, one line item can act as a source or as an application, depending on your timeframe. So in any case, equity can become a source. But if you're given more dividends than what you have raised, it will become more like an application or fund kind of model. So I see, I divide those, and I can share that with you offline also and I see it over time over multiple timeframes. So I will see three years, three years, three years, three years, then I will see six years and six years together, then I will see over the 12 years' journey and individual journeys also. And there is a model, which is helping me do that. So earlier, it was more towards the same analytical stuff and was less, too much of checklist points. But now my spreadsheets have evolved more towards analytical points. But this podcast is not about me. So Manish I will stop now. It's more about Rohit's process. So let's stick to that.

Rohit Chauhan: Anyway, I think we should connect and we should talk about it because one of my, I would not say obsessions, but one of my areas of focus is how do you and I keep bringing this up? How do you improve the amount of time you spend? There's obviously a certain minimum amount of time which you have to spend to analyze an idea, but how do you kind of, I think in an era where we have the likes of Mr. Manish and others who have automated systems, and these automated systems do extremely well, and they require much less amount of time, we have to adapt to that. You can take a very artisanal approach of analysing every annual report, but then you have to concentrate more, because obviously, you're going to only look at a handful of companies, and then I'm very uncomfortable with being over-concentrated. So with time being a limit, how do you bring all these automated and quantitative? So that's why I was more interested and maybe we should talk later.

Puneet Khurana: The more you try to bring it from numbers, prioritization becomes very easier when you focus on those things. So all the key qualitative questions, be it around pricing, be it around the seasonality of the business, cyclicality of the business, most of those now I answer using my analytical models. So that is the shift I have made from last I mean when we met last, and in that last eight, ten odd years, that has been my shift. But again, not about me today. We'll focus on your process; we'll get in touch again later maybe. So now I have understood your screening process and a bit about your analysis process, and the analytical work you're doing regarding your checklist. Broadly, you have mentioned it in your other interviews. Also I was seeing that some parts of your checklists are touched here and there. Let's now take it to zero down toward buying. So what now finally makes into your list, because eventually, you're also doing portfolio management, and you're doing portfolio advisory. Not every stock will make it into the list. Right? Even if you like it. So what are the cut-off criteria? Actually, sorry, Rohit let me do one thing. I just had one question about your process also, let me ask that right now. So, one thing which you mentioned, and which I want to ask around that point of evaluation, is that your management checklist has evolved with a bit more negative aspects of what to avoid. Not only management but give me your absolute no - no's, which will kill your idea, in 15, 20 minutes. If you find that point, you're just not going to rush that company. Let me just have those few negative things you look at.

Rohit Chauhan: So one of the things, and I will not go into specific names, but usually I've avoided companies whose source of success is their political power. Like, the only reason why they're so successful in that area and they're making these super profits is because they have the right connections. And it is not a moral argument or anything. I am not getting into moral arguments. Outside of maybe investing in a Gutka company or a cigarette company, I don't get into moral arguments over here. My morals may be different from somebody else's. But anyway. So it's not a moral argument. I try to make my concern that when you get into that model, if the management or the source of their advantage, or competitive advantage, is the political linkages they have that can evaporate if the winds change. So I usually avoid that. That is first. Second is, in other cases, what I've learned over time is you have to be comfortable with shades of grey. I have all these checklists where I would say, I'm checking all the points, and as I look back on the numbers, in terms of the results, I've realized that you always have to think in terms of context and how much you're ready to let go. I think, with age, you realize that in all these things whether it is management, friends, or family, if you try to be too specific about this is right, and this is wrong, obviously, you don't want to buy into a company where the management, the leadership has been convicted of murder, and he's in jail or something. Those are extreme cases. That immediately drops off.

But outside of that, it is all a composite picture. Earlier it would be, is the management overreaching that? Are they overcompensating? Obviously, that will be an irritant for me. But now I would say, that's fine if they are creating value, and if they're overcompensating themselves, I live with it. I've used the analogy of riding a tiger with my subscribers when I've written about it, that you're on a tiger, and this is a risky position, think accordingly. If things go bad, the stock could suddenly collapse, and especially every time you have these market failures, these kinds of stocks collapse hard. But outside of that, there are very few. But again, if more than one starts popping up, then definitely. So let's say politically connected, sensitive sector and then there are too many related party transactions, they have all kinds of subsidiaries and all kinds of funny stuff going on at the same time. Management is getting overcompensated, if too many such pointers come up and if I see more than two or three, then the threshold keeps dropping, and at that point, I'll say, let's move on to something else. So it's not one single criterion, but I would put three or four criteria together, and if it happens, which is where this whole execution thing has gained more and more prominence.

My personal experience has been a little bit of a management which is not pristine, but which executes well, and again, no moral arguments, right? You're not trying to make friends, or you're not trying to become some partner with them in that sense, but the market seems to be more tolerant around it, versus if your execution sucks, you could be the best of the management and you could be doing everything very ethically, the market will not care about it, and this is where I think again momentum and investing have a major, I would say advantage over value. They don't care what you think about the management, if those few factors are working out, okay, let's go ahead and invest in it, but if it makes my stomach churn, I will not invest in that. So multiple things.

Puneet Khurana: So, now, we have got a picture of your screening methodology, your evaluation methodology. Now, let's go to the selection part. Eventually, something will make it into a portfolio and something will not. So, what are your buying thresholds or criteria? I now understand that valuation has now reduced in terms of importance. It might still be there but it has reduced in terms of importance. So what makes your final list?

Rohit Chauhan: Value should not be a headwind. That's all I look at. It should not be extreme that the multiple compression will cause returns to drop. So one of the other things I'm a big proponent of diversification is not just in the number of stocks. I would try to see, try to think what are the key variables driving that company or industry. So let's say if I'm looking at a plywood company and a real estate company, and both are correlated to the real estate cycle, then I lumped them into that bucket. So my thought process will be, is my diversification increasing, or is my diversification going down? And I would prefer to have companies, which are spread across sectors, instead of having companies which are driven by the same variables if you may. And again, it's not a very hard-defined formula. I have to sit and think through it and see, okay, what are the variables which are driving all these different companies together? Some variables, you cannot diversify. I mean, if everything is India based and if India has trouble then, but are these all export companies or import companies? So that's one type of criterion.

So if I already have, let's say, three financial services companies, one has to go out for the other to come in, that will be the first criteria. Second is ideally I would want the new company to enter into it, and I usually try to keep 18 to 20 stocks in the portfolio. So I will look at okay, what is my weakest, you know, this usual 101 what is the weakest position? Take that out, replace that. And usually, we'll start with a smallish position. So I rarely go above 5 to 7%, because that is the threshold at which I'm comfortable. So I'll start with a small position, let's say 2-3%. The first thing I will do is I will start just a, like a toehold. I will just create a very tiny position. It will be like a point 5% or a 1% and start following the company. Because what I've realized is that tracking list and all that is fine. But once you put money in a stock, it changes your approach. When you're making money or losing money, your attention to that company goes up. I've seen my own and other people's psychology also, again, within a certain limit. So I'll put a little bit of money and then I will start tracking it.

Puneet Khurana: This you do in your advisory portfolio also?

Rohit Chauhan: No, I will not start in that way. I don't want all the subscribers to pay for my experiment. So I will do it in my personal portfolio.

Puneet Khurana: You will do it in your personal portfolio eventually, it will flow to your advisory portfolios.

Rohit Chauhan: Right. And I declare it, I tell the subscribers that these are the 10 small positions, which I'm tracking. It's not advice, and I'm not asking you to buy it or anything of that sort. It is just that I'm just tracking them, and I'll track them and I'll watch it. And so quite a few will just fall off. And then if I get comfortable, and if the management and that getting comfortable can sometimes vary one quarter, two quarter, sometimes I will not get comfortable after three quarters, and I'll just drop it off. Once I get comfortable, then it will be a graded increase. Sometimes it goes straight from, let's say half a position to one position because of some variable which I was tracking, or I was able to connect some dots, and then results come in and it just clicks, and then I'll just take 2 or 5% positions, maybe sometimes a little bit more than that. If not, then it will get stuck in that size for 3, 6 months, and 12 months, and at a certain point I will realize that this stock is not going anywhere, the company is not going anywhere and it will get anywhere washed out when the next idea comes in. So it's generally graded. I usually don't scale into the full position right away.

Manish Dhawan: And all this topic of position sizing Rohit, how big do you allow it to go?

Rohit Chauhan: In the past, I've allowed it to go more than 15%, and then I've burned my fingers on that. So usually not more than 10 now.

Puneet Khurana: So after 10 at market value, you will start scaling it down. Is that what you're saying?

Rohit Chauhan: Right. I have a different bucket. I think when we talk about selling, we can talk more. It's different criteria. One of the criteria in my head is that once it is above 10%, this company is in a special kind of bucket where it needs to be tracked more closely and if things are not working, let me start and again. I have a sort of a thumb rule in my head, let's say if it's a large position and a bunch of other things you were talking right? It's a large position, valuation seems to be extreme, a lot of momentum around it. Okay, let's start taking it off. It's a large position with extreme valuations, let's take it off. So it's a bunch of things I'll put together and say it's all coming down to basically a risk. Is this large position adding to risk? But yeah, above 10%, it gets into that. Below that between 5 and 10 it's in that yellow kind of a zone that okay, I may take it down, may take it up. If it's at let's say, 3% position, then I will give it far more leeway, because it's not going to move the portfolio needle that much. If I get it wrong, I'll lose maybe half a percent on my portfolio, if it does extremely well, also it will not.

Puneet Khurana: So we'll come to the selling part again. But let's close this particular loop here only in case we missed it later. So let's just say it was hypothetical. So a position became maybe at cost it was 5% or 6%. This position did much, much better than other positions, and it became 10%, which is your mental threshold. Again, it's not written, you are not quantitatively applying this, but it's a mental threshold for you. So, it reaches that 10% stage, you are now more closely monitoring it. Would you go out of or trim your position based on opportunities also? Or let's say, if you're in a market where opportunities are not really that much, in a crazy kind of a market, you would say, Dude, if I take out the money, I don't have an option, I'd have to move to cash, and moving to cash might not be a great way I want to stay in the stock just because my alternate is cash, or do you have a view on cash position raising at that point in time? So basically, this question also takes into consideration your thoughts about cash as a part of your allocation.

Rohit Chauhan: I usually don't think of cash as a quantitative, but it's more of a balancing equation, if you may, putting your formula together, and whatever net is it kind of balances the whole thing out. So again, I've been personally, I would say, overcautious all my investing life, to the point of being paranoid. I just don't want to blow up. So I've usually held more cash than I should have. Looking back, it ranged between 5 to 20%, sometimes even above that, but I will not hesitate to come out of a position and put into cash whether I have or I don't have a position. Again, I'm not putting cash because I have a certain view of the market or a certain view of where the economy or all of that will go. It's just that I'm not finding ideas, which I want to put in it. But usually, as markets start correcting and more ideas coming up, cash starts going down. As markets get euphoric, and I stop running out of ideas, cash goes up. And that will happen even if the independent of everything for me if a position, I'm getting uncomfortable with it, and if it's too big, I will sell it down and it goes into cash. And that's a different mental bucket. Cash is a different mental bucket, positions that are different than two buckets, and finding a new idea is a different bucket. All are independent of each other. But let me put it this way, I'm not afraid of holding cash, even if it drags my performance. And I've told my subscribers also, my own family's portfolios in the same way. So if I'm not comfortable with it, and my family's not comfortable with it, I will not do it in any other way. And obviously, there is a penalty for holding so much cash, it keeps my blood pressure down.

Puneet Khurana: Fair point. So when was the last time you went into that larger cash position, I mean, just to get an idea about how and when it was?

Rohit Chauhan: This was in 2018 timeframe roughly, and then it was early 2020. Like, before the COVID. So COVID was a very interesting time. And we could talk a little more at a later point.

Puneet Khurana: You can talk about it now.

Rohit Chauhan: I usually don't try to time because I'm not good at it. But as I started looking at how COVID was developing in late February, just the whole thing around, the mental model of compounding, which people keep talking about and what I saw around I think a lot of investors got this right actually, because they think constantly about compounding, and we could see that infection rates were increasing by let's say, whatever X percentage or 5% per day. And if you did a very simple extrapolation, you could see that this was going to go parabolic. So I even actually wrote a post and I published it to my subscribers saying 'in the next 8 to 10 days, there's going to be an oh shit moment where all these things are going to go through the roof and governments are going to panic and people are going to panic'. And I think a lot of investors caught what I saw all around me. Even my wife felt I was overreacting and then we don't argue in numbers with your wife. But at least in my portfolio, that's when I started going into cash. And then obviously, I became very concerned about how this thing works.

So that was the only time when I went into cash, and I didn't exit out quickly out of cash because again, I underestimated how much liquidity would get pumped and how it would. And again, it all boils down to your own personal experiences around investing, the era, the time, your family background. So in the past, all these bear markets would be slow. Grinding would take like my first bear market was actually, from 2001 to 2002 or 2003 and even prior to that, there was no parabolic take-offs. It was the market would slide, slide, slide and then it would meander for months and, years together, and you would completely get grinded out, and then slowly the market would recover. So I thought, if that happens, the best of us would lose patience. So I didn't jump in. So that's how my cash remained high. And then slowly, you know, obviously, as opportunities kept coming up, I've reduced cash. But it's usually in the low double digits, often right, 10-15% is the cash I would generally keep, it goes down to only 5.5%.

Puneet Khurana: Just to close the loop on that point, was the reason of not going into more cash when you saw trouble creeping into the markets or possible trouble creeping into the markets somewhere at the back of your mind? Was it okay? 20% is my threshold of maximum cash and I don't want to go more than that.

Rohit Chauhan: That is more around the same aspect. And again, it's not a very scientific way, but it's that another thumb rule I use is I don't know what's going to happen. And as a matter of fact, nobody does. But then people think they do, but that's a different point. So if I don't know, what's the best way to do it? 50/50. So I don't want to be out of equities completely, because then getting into it is another story altogether, like, when do you get in? But at the same time, it all comes down to doing. I bring it down to a threshold where I can keep my sanity and my rationality intact. Like different people, some people will absolutely want to be 95% invested and will stick to it, and some people are very paranoid and will be in a lot in cash, I sit in between. So at that point, I thought, 'let me bring enough cash, again, from a different vantage standpoint that I could deploy it at a later point, I will remain rational when the market is crashing’. and the drop is much lesser. So I brought it down to not a very scientific level but brought it down to a point where cash was almost 30 to 40% of the portfolio. But there were companies which I felt were good enough.

And if and when things survive, these were fundamentally sound companies and I did an exercise actually at that point where I looked at each company and I actually wrote a note, and then I shared it with my subscribers at a later point, because if I had shared it at that time, they would have panicked. It was like if everything goes to zero in the sense that the lockdown continues for a year, which of these companies would survive? So I did that for every position I said, revenue goes to zero. How will they survive for the next six to nine months? And I did that in 2008 also. So if revenue goes to zero, how much can they reduce costs? How much cash do they have? How much can they borrow? So what is their runway basically of survival? Some companies had a six months runway, 9 months, and 12 months, like an extreme stress test. And then based on that, if I thought that this company was a little bit on the edge, keep the position size down or sell it off. So that's how I did but those are very extreme cases. Most of the time if it's a run of the recession, like we're talking of now, right? Recession is going to come up and all that I ignore doesn't factor into my cash. I mean, it's part and parcel of life.

Manish Dhawan: Rohit, I'm still not able to get my head around it. Essentially, you were saying that through your analysis, you pretty much predicted a Corona crash. I mean, you don't know how much it will crash but at least you were able to figure out that this is going to go parabolic. My point is, why did you just take a 40% cash call? Why not go 100% cash and if anything, hedge it with some puts, I mean, it's a trader in me thinking if I'm able to foresee that.

Rohit Chauhan: Correct, fair point. So again, I did buy some puts again for my personal portfolio, but by that time, all of this kind of transpired in a matter of days. I got glued onto it, and a lot of other smart investors had also started glued onto it. So the puts and all of that were not attractively priced. So, that was one part of it. Second, by the time I started, again, this happened, like over a span of two weeks, or maybe a week or so, and by the time I started exiting, some of the positions which I had, were getting into a situation where the market started pricing them for a very extended like a downturn like, okay, the market or the economy is going to go completely down for the next six to nine months. So at that point, I realized that there is no point in just throwing everything out, and in hindsight even when, I actually wrote to my subscribers also it was like a 50-50 bet. The 50-50 market recovers quickly, the economy recovers quickly, and we are off to the races, which is what happened, or 50% everything goes completely haywire. So I said, honestly, I can see where the infection is but I cannot foresee what happens after the you know, extrapolating the graph and everything was one thing but saying, Okay, this will cause the complete lockdown, and how long the lockdown will continue. It was a tough call to make that second-order effect, and the third-order and fourth. So I said, let me take a 50-50 bet. Let me bring it down enough, but still remain invested enough that if and when the parabolic, or whatever the recovery happens, I'm still exposed to it. So again, nothing mathematical, just sheer saying that I don't want to take a view on how things will work out and take a completely 50-50 bet. And then post April when things started recovering, I started putting money in. So that helped. I mean, basically, that is what I did.

Manish Dhawan: I hope Puneet I'm not interfering with your flow.

Puneet Khurana: I'll come back to it. Don't worry. Go ahead.

Manish Dhawan: I just wanted to know that you know, I've spoken with a lot of value investors, and the 2020 Corona crash has had a paradigm shift in the way they think. Has it impacted you as well? Have you changed your approach posts the lessons from this crash?

Rohit Chauhan: So, let me put the question back. What kind of paradigm shift have you seen with others?

Manish Dhawan: So without taking names, I know people who are starting to take care of the downside risk now. So they know they exist.

Rohit Chauhan: So in my case, the COVID crisis actually did not change my thought process that much. For me, things which grabbed my attention, really, made me question when my individual stocks go completely haywire, and when I say haywire, it's not a 20-30% drop. So I've had maybe over my entire investing lifetime, three or four stocks which have gone down by more than 50-60%. And when that happens, I would spend weeks, months. I very vividly remember all these stocks, and then I've done a lot of questioning about my process and about my thinking, and whenever those things have happened, I've looked at, okay, what went wrong? So that happened more around the 2018 timeframe. I had invested in some of the financial services and these companies. I did all kinds of analysis, pored over their accounts, looked at their loans, and did all kinds of stuff and got it completely wrong. It happened to me in early 2000, when I bought a company called SSI and that went 97% down or 90% down, but I was very new to it. So I didn't know absolutely anything about what I was doing.

So my mindset changed around risk management. Maybe I started putting more focus in the 2018 timeframe. When I saw certain positions go completely against and it's more around, not that I got the position wrong, it's about which I get obviously, from time to time. It was like I did all the work and followed all the rules, which I have put in place in my own case, and then in spite of that, I got it completely wrong. So then it was not that what I drew wrong. Like what went wrong from a thought process thinking and that is where all this exploration around momentum around trading, around quant, started coming up. Like I clearly saw there was a blind spot in the way I was approaching all of this stuff and it made sense to read all of these other approaches, philosophies and look at what. So by the time the 2020 crash came, I definitely started looking at the whole risk management and downside protection. So not 2020 but prior to that.

Puneet Khurana: Rohit, got pretty much about your allocation strategies I'm driving from what so I'll just summarise those points, which you just mentioned. Before I do that, do you also have industry limits like for stocks you have 5 to 10%? What would that be?

Rohit Chauhan: I'll generally keep it around 15%. If I have two positions, usually it will not go above 15. Again, the same thing has come from some of the failures that I've had in the portfolio. I allowed it to go. And again, when I say industry, I don't look at it purely from the industry. These are also common themes, which are driving it. Same value drivers, if you may, but 15. So again, same thing, paranoid about not losing money. And I keep telling that to my subscribers,' you may not make exceptional money, but that's the price you pay'. Anyway, with India doing well, and things doing well, I've personally always felt you don't have to go crazy after the returns. If you take care of it, and you will live long enough, the numbers will come. But sorry, go ahead. You had a question.

Puneet Khurana: No, no I was just summarising. So at any point in time, you're going to have close to around seven different sets of let's, not call them industry, but something where the group is being categorized by some driving points, different sets of driving forces, seven to eight or whatever be the case. And you also mentioned that you are generally starting positions at 0.5% to 1% if you're doing your personal portfolio, where you're doing some testing, testing the what else kind of thing, but in your advisory portfolio, it starts somewhere between 2 to 3% and then you scale it up as per your comfort.

Rohit Chauhan: Two to three, correct? Yeah, that's a fairly accurate way of how I manage it.

Puneet Khurana: So 2 to 3% scale up. At the cost level, how much do you go? Or 10% is there also, I mean, generally, your stocks will be moving up.

Rohit Chauhan: No, at cost level, usually 5% max, it will go to 6% or 7%, but it has rarely ever gone above that. I'm not just comfortable putting more than that. I don't recall last maybe once or twice, it would have happened. But mostly it will get capped at 5%. And again, I think with time, markets become so much more efficient, by the time I figure it out, the world has figured out much before me. So you used to exist early, I'm telling you, 14, 15 you know, you figured it out, and then comfortably you kept raising it, and then the market gave you enough time to respond and do it. Now, by the time you kind of figure out 50% of it the…

Puneet Khurana: There will be 5 YouTube videos on it, and 50 reports on it.

Rohit Chauhan: Yeah. I mean, it has always been a young man's game but the efficiency in Indian markets is mind-boggling. What is working today will definitely not work in the next six months. So that's the other treadmill, we are all on.

Puneet Khurana: Sure. So, then that is the case that you do 2 to 3% and maximum 5% to 7% on your cost basis and because of the market, if it goes beyond 10%, you start thinking about the position more seriously. And for the sector, you said that 15% and a replacement of an

idea happens either because of your position size becoming too large. So you have to think about the next idea to replace it with or if something is more enticing given your current risk profile of the company, which is there and something is a better risk-reward in your portfolio. Is that a fair summarization of how you are managing?

Rohit Chauhan: Absolutely, yeah.

Puneet Khurana: Fair enough. And I think that pretty much answers selling.

Rohit Chauhan: I'm taking nothing fancy, very straightforward 101 of portfolio management.

Puneet Khurana: Yeah, and I think one point I missed to summarise, which is you don't do any kind of averaging down anymore. When you're scaling up the position, pretty much the prices will be higher than what you bought them for in the initial phases, or similarly…

Rohit Chauhan: Little bit 5-10% here and there usual bouncing around is happening. That's fine. The fundamentals should be improving. If the price is a little bit down, or prices a little bit up, it's okay. But if things start going south, the stock I bought, it's now down 20 obviously, the first thing which I want to do is I want to exit it, and I should be exiting it. But let's say I feel that in two, or three years time frame, the company will do well and for various reasons, the stock is going down. The first thing I will do is I will not average down. I'll just hold it up to a certain threshold.

Puneet Khurana: I mean, the reason for averaging down because of valuation has been eradicated, I think that will be a much better statement to make.

Rohit Chauhan: Yeah. I think I've learned over time that the market does get it right, far more than we would want to give it credit for. So, if I'm left scratching my head saying companies are doing okay, but why is the stock dropping? If you can figure out why the stock is dropping, the answer is fairly simple. It will say the company is not doing well, numbers are bad, the basic model is broken. So it's a very simple decision, sell exit, and you're done. It's usually in the cases where I think the numbers are looking good as of now, everything is checking out but the stock keeps dropping, I think that's where the dissonance comes in. Now in the past, I would hold ground and say, you know what, I'm smarter, I know better, and all of that. Now, I've learned, a school of hard knocks that gives more credence to what the market is telling you: at least, pause and wait, don't jump in, and save your capital. If you turn out to be right, you will get an opportunity at a later point also but don't add to it. So that's the change I've made over time. Not that I think I've averaged on much. I've rarely done that, but stopped it completely.

Puneet Khurana: Fair enough. So I think one point which I probably or maybe two points which I think I'm missing in the whole portfolio construction zone, which probably listeners would want to learn from but also I want to bring your advisory company into the picture. So, since advisory is one of your services when you are providing a portfolio as an advice, you have to think of liquidity of the stocks because of moving hypothetically from a stock by

saying okay, sell it out versus in a position to actually people to sell it out of the position how do you think about liquidity for your clients? And the second question, I will ask separately if you can answer the liquidity part first.

Rohit Chauhan: No I do a personal portfolio I would not. But I've put this filter in the last few years. Usually, I would look at how we don't manage money directly so I have to just guess the number of people who are subscribed into. I'll just assume a certain portfolio size as a percentage of that position. So I'll just make some numbers up. Let's say 100 people invest 25 lakhs per individual. That is let's say, 25 crores, 5% of that is let's say, 1.25 crores. So, if it is 1.25 crores, I would look at a stock where at least the daily volumes can all my subscribers, including me buy this stock in a day or two days of liquidity or exit out of it. So, I generally think of that, because if all the subscribers including me are going to account for a week's liquidity, then we could get stuck. And there are a lot of such companies which do come up, which appear to be attractive. The volumes are very high and again, the same thing school of hard knocks right?

Again that's the other interesting thing you brought up. At the time of buying, if you end up buying a stock, let's say it's 2000 crores market cap or 3000 crores market cap, usually there'll be enough volume at that level if it is doing fine and the market cap is that high. Now, if I start averaging down and that 2000-3000 crore stock then lands up into the 1000 crore this thing and now if I say now exit not only will my subscribers murder me for losing 70% of that money, exit becomes impossible. right? because you're trying to exit out of a thinly traded stock which used to be traded fine, but now it has become thinly traded. And on top of that, the market cap is low and so I am not even looking at liquidity at that time. I'm assuming, it's a 20% drop, how much liquidity under normal circumstances will be there and then obviously those companies, I just take them off because then we'll get stuck and we'll actually create the impact cost. Again, the same thing has happened from experience that you get stuck then it becomes very tough to exit.

Puneet Khurana: Fair point. Actually, the reason for asking you this question was primarily from the subscriber's point of view, if someone is looking for a portfolio, I think that's a very important criterion. The second point is also related pretty much to this point only how do you manage the dissonance between your portfolio versus the advisory portfolio, given the fact that you have a constant income to put into your portfolio, because you have a job, you're taking surplus cash from there, and you're putting it into the portfolio. So you are more doing like, a flow-based Investing, whereas your subscriber might be doing a more lump sum driven investing, they're dedicated, let's say, okay, I want to invest 10 lakhs into what Rohit is saying, and that will become like a more lump sum approach. So how do you deal with that thought process when you are thinking about the subscriber versus individual?

Rohit Chauhan: The way I've approached it is that it's more in terms of a percentage allocation. So, again, this is a question which has come up for a lot of people who also asked the same thing. And I think anybody who gives advice and does not manage the money directly, will always have this question, whether I'm doing it for myself or somebody else. And the way I've usually handled for myself, and for subscribers when they ask, or anybody who asks this is, let's say you have a 100 in your portfolio, and let's say 5% is allocated across 20 positions. Now, usually, what I would do is, let's say that 100 goes to 120. So one option is you rebalance everything to 5% and allocate all that extra money out into all those positions. I usually will not do that for myself and the way I've approached it is that whatever I do for my personal portfolio is exactly what gets put in the model portfolio. So if I'm doing something in my personal portfolio, only that goes into the model.

So what I would tell subscribers, and what I ended up doing is, ‘Let's not allocate the extra capital out to companies, which are not in the buyer range, allocate it out based on the same percentage to the new idea’. So let's say a company, which was 5%, and you added let's say, 20 to the portfolio, and now it has become 120, the weightage has dropped, then so be it. It's not optimal but then, instead of 5, now that position has become, let's say, 4.5. Now a new position comes in and it had a 3% of the new size. So of 100 you take 3% and you add to that. At a later point, this old position, if it either increases or if I'm going to add more will add. So it's a little convoluted way, unfortunately, of approaching it. But that's how at least I do it for my own personal portfolio. If new cash comes in, you're not going to proportionately allocate to all companies just because you want to maintain a certain threshold, it's more about the new ideas which are coming in, but on the new base. So something like that.

Puneet Khurana: Actually that is where I was coming from that in itself would lead to the variation between portfolio sizing in your portfolio versus your client portfolio, because the client is not doing SIP kind of a thing in your portfolios, right? He has bought and he's holding that position, but the stock might be in your buyer range, and just the sheer fact that out of 10 stocks, let's say 5 are in your buyer range when your next money comes in, you will be increasing your allocations to those stocks and your portfolio will become heavier on those names, but for your subscriber, that will not be the case. And eventually and again, I know I understand that Market to Market will be very different and there is probably no right answer to this. So that's why I'm asking how you manage this, but there might be some extreme events like the COVID crash like other places where you get the opportunity and the scale will obviously be 3,4, or 5 names will get a much higher allocation. In that case, how do you manage that dissonance or do you go back and rebalance after a certain point? I’m just trying to understand this.

Rohit Chauhan: If there is rebalancing happening the way I'm looking at it, there are two variables in this, right? One is the denominator. So the portfolio is not run-based. So the way we have structured the portfolio is it's a number. Just to keep the comparison consistent across time horizons, we started let's say we started in 2011, even before the regulations and everything came out. So, we started with a hypothetical number of 10 lakhs and then the assumption in that model portfolio was that we are not adding cash to it, because what happens is you add cash to it and then there is XIRR, and then all kinds of acrobatics I have to do. So, I just kept it simple. I said assume a static portfolio starts with 10 lakhs and we just do so. The point you are making it's fixed, there is no inflow and outflow from the portfolio which I'm sharing with my subscribers. But that's not life, right? All of us kind of have flow in flow, cash flow coming in we are putting money in. So, what I tell people to rebase their number based on that number like, let's say, 5% of this is on this particular total size, right? Look at your own personal portfolio and rebase it to that 5%. Again, ideally, you want to manage it in a slightly different way, but very honestly, I have not found a better way because different divisions come in at different times. So let's say you add 20 lakhs and somebody adds 30 lakhs, how do you achieve that consistency of performance for representative purposes?

Puneet Khurana: Before I ask the question, I probably have an idea that there is no right answer or there is no perfect way to do this. But just a thought about how you manage this is…

Rohit Chauhan: No, no that's a thing that I've always wrestled with. You have a very good point and subscribers keep asking me why I ended up taking a few decisions in the beginning as I want to keep the performance tracking as simple as possible. So start with 100 and don't assume in and out because that will not, and very simply say, the dividends get reinvested into the model portfolio. This is the money I started with that was invested in these stocks. These got sold, these got bought, this dividend came in and it was reinvested. So then I can truly say that. Otherwise, you can always take these tricks. You can say 'I put extra 50% cash into this model portfolio in 2020 bottom, and then I started buying from there,' and nobody will look for better for it. I took all of those equations, I said, January 2011, is when we started, we started with an amount of 100 I'm just putting this and that's it. Now, if I can put extra cash in my personal portfolio at the bottom of a crash, fantastic, the numbers are better. But you know, no such extra benefit of hindsight or anything for the model portfolio. The model portfolio starts at 100 and just remains that. So basically just to ensure that there is transparency and consistency of numbers. That's what we ended up doing. But I think you're right, if you can put extra cash at the bottom, it obviously should improve. It should be a plus rather than a minus. That's the way I'm thinking. Let's say you keep getting these inflows, hold all the inflows on the side. That's what I tell my subscribers and then add to it when we get more aggressive on the model portfolio.

Puneet Khurana: Fair point. Should I continue Manish or do you have anything?

Manish Dhawan: I do but I just don't want to disturb the flow.

Puneet Khurana: Okay, then don't break the flow I will continue. So a lot of parts of the process are pretty much okay. We have understood the buying, we have understood evaluation and portfolio management, etc. Selling is pretty much part of it and you've probably covered it to some extent, which is you are selling based on your, I mean, when the scale of the position has gone beyond your limit, but I'm pretty sure you have other reasons to sell. So let's also note them down. So what are the reasons you sell, except for position balancing or any of that reasons?

Rohit Chauhan: Number one reason is if I got something wrong, I mean, I think that's always right you end up buying something, and the original thesis breaks. So that obviously is usually the number one criterion. Second, I've been guilty of this quite a bit, I bought a stock and I then just kept waiting and waiting and waiting for it to turn, and then that never materialized. So that's the second. So I've kept a threshold of two years that if a position doesn't work out within let's say a year and a half to two years, let's move on. So maybe that's the second reason. So, one is thesis breaks, second, it doesn't work into yours. Third is position size, fourth is the management just keeps coming up with new excuses every time the performance is bad. Now there, I have a smaller tolerance. I'll wait for one quarter or two quarters. If I just see new excuses coming every quarter for why the company is not performing independent of where the stock is, and what the price is, I've dropped that threshold pick time, because that has been the reason why I've ended up getting stuck with positions for years at and before the thing turned around. And then, but I never sell because I have a view about okay, this is going to happen to the economy, interest rates, and the market will crash this that, I never do. So, it's all individual position-specific that I end up doing it.

Puneet Khurana: See the majority of the time, it's the same thing with the value investors. So thesis break is there, and position sizing is there for all the reasons which you mentioned.

Rohit Chauhan: There is one more thing. Let me add to that. So earlier, I would never look at this. But now let's say a company declares its results and independent of how the results are, let's say the market reaction is very violent. And when I say violent as in, like, the stock really caps down, they literally just crash 15-20% for whatever reason. Now that has my attention, big time. Otherwise, I would think, 'Oh, I'm the smart guy, and nobody gets it, I'll just hold on to it'. I'll be the brave guy and I'll just stick around with it. No, after 20 years of doing this, I realized, and by the way this has increased more now, it used not to happen earlier. You get nostalgic with age on these things. The company would declare a bad result and nothing would happen and then weeks and months would go by and easily you can sit and mull over it over your tea, coffee or whatever drink you want. No such luxury now. If things don't work out now, a little bit of a drop and all that is okay. But if the stock really goes bonkers, and I mind you it's not in momentum, it's none of that sort, but the stock just crashes. That gets my attention. I may not exit, but definitely I will start thinking hard about it and sometimes I may even start exiting. So that has changed again, that comes from the Traders mindset.

Puneet Khurana: It's interesting, you said that at this very moment. I am in one of such stocks, which is also I mean before it fell that much, it was probably my second highest position. Now it has reduced only because of the fall and I'm pretty much doing the same thing which you are saying, so I can appreciate the point which you're mentioning. But then let me put a bit more tangibility to the whole concept of the thesis not working. It's a very common thing we hear from everybody whose thesis not working.

Rohit Chauhan: Yeah, everybody says thesis. What else?

Puneet Khurana: I mean; I sell out when my thesis is not working. And in the same breath, we also say that we don't know, right? We don't know a lot about a lot of things. The judgment could be wrong or delayed and we can't time things and all those things are there. And then we say, 'I want to judge if my thesis is not working'. Let me put your construct which has

happened to me, at least sometimes, is that we have decided zero down on the few points I want to look at which you also mentioned, priority points, which affect the business and the performance of the business. Those points are not really doing the way I expected them to. But the price is doing great. The price is doing fine. The stock has done really well despite the thesis not playing out, and the thesis is not working out. In that case, you're wrong on your thesis, but you are in momentum. Have you changed your viewpoint there? Are you going to write the thing?

Rohit Chauhan: Yeah, I have changed completely. And I think this gentleman is called Aswath Damodaran, and I am sure you guys would have heard about it. I liked a few of his posts. He is an academic. Lots into value and he's made this good point, like, he wrote a very long post around it that value investors have a chip on their shoulder and they want to do it in this way and that way, and they made a religion out of it. So I kind of completely went to 180 on that. Like when I look at the numbers when Mr. Dhawan has posted on his website, and I look at other momentum investors I mean, the results are there to see like why we have to get religious about it. So if I see this is happening the first thing which I will do is I know my thesis is not working. And so it has moved from a point where it's no longer a value play, maybe it's a momentum play. So then I'm thinking about a different time horizon. And I'm saying 'You know what, this has become like a trade and there is nothing wrong about it.' But now think of it like a trader if you may. So think of it like a momentum stock and don't think of it that you will hold this for three years, and then this will happen and that will happen. Now be ready to exit at a moment's notice. And sometimes I even alert my subscribers. Sometimes it's very tough. And this is a point where public versus private investors you know, I think private investors have an advantage because you can keep flip-flopping and you can change your thought process. But when you're doing it for your subscribers, if you bring in all these points, what they will say is 'What you are doing bro?' What exactly is going on? Yesterday you said this was a value stock. Now you're talking momentum, then you're talking trade. I mean, this is a mess.

Puneet Khurana: Imagine getting mail that I bought this for great management quality, great business, get everything. But unfortunately, now it's a momentum stock.

Rohit Chauhan: And Puneet, you would and Manish I know, have sometimes, put on his Twitter and we have seen right? This is another thing which I've seen people will come up with these huge stories, me included, and then we get stuck in these stories. I think that is the biggest problem when we do fundamental investing, right? We get stuck in all these stories, fantastic management, we'll go till 2050 and all that, and then what happens is we drink our own cool on it. We'll get so stuck in the story, and then that story may or may not play out, and then what do you do? Like there are all these funds in the US, there are some of these funds in India, they sell based on stories, and what happens when the story goes bad you are a technology fund, and you are a SAAS fund, now, what happens when the SAAS sector goes down? What do you tell your investors? Oops, sorry, the story is no longer true. You double down and that's it. That's the fastest way to lose money. So I've realized that when the story changes if you tell subscribers you tell openly, they get upset. A lot of times people do get upset that, you know, why are you changing your mind? But I think that's a strength, not a weakness. So you're right. So in this case, if the stock is doing well, and all that I know my thesis is broken, but you are making money so let's stick around for a little while and when you make money, everybody's happy.

Manish Dhawan: You know today in the morning me and Puneet were having this precise discussion, and we concluded that BAAP or buying it at any price is actually functionally equivalent to momentum investing only. But the only difference is that when the stop hits, they have to narrate a story.

Rohit Chauhan: Correct, and it's actually dangerous. You are bang on. People talk about Asian Pants and all that like 'Boss, what are you talking of?' The only reason why I'm able to say something is I worked and saw that company from very close quarters, fantastic company, but don't say in 2015 this will happen. See that's the other dangerous part of it, you do this BAAP investing, you're doing momentum, but you're not following momentum all the way, right? You're doing the entry part of it, you're not doing the exit part of it, you're going to kill yourself and your investors because you can't change your story quickly, and you will allow the stock to go down 30-40%. The momentum guys have moved on and gone to some other new stock and you're still stuck holding the bag. I empathize with public investors who do it because the story sells, right? If you muddle your story, it will not sell. So in that sense, it's not that people are evil or anything, but how are you going to gather assets? Like I know I do it on the side, we have not changed assets or anything of that sort. But if you're into the story business, you can't change it so quickly. We have seen that happen with these various ETFs in the US but go ahead, Puneet.

Puneet Khurana: So, there is, I think a cognitive dissonance element along this. So, in some cases and many value investors did tend to say, in the same breath, you will hear two contradictory statements, which is thesis wrong and the market is usually right, and I exit when the thesis goes wrong, and in the same wisdom, somebody at some space will give that we should listen to the market because the market is a collective wisdom of a lot of vibes. And in some cases, what I've seen is that most of the time value investors are betting on this very simple thing that the thesis is right and eventually the price in the market will converge to some extent. Even if you're not, the market is judging right the business. Then you're talking about the valuation continuation of that journey and everything else. So it's not always market wrong. Do you also bet on the continuation of the business momentum? But on some cases when especially the point is the thesis right and the market wrong element, often it has happened that the price has moved much before the thesis points which we are thinking of actually materialized. And that is precisely where when you enter and the price moves and your thesis is not moving, moving out of the position is actually very stupid. I mean, it's a very weird position to be in. I mean, this is where learning that the market has a huge tendency of being right, is where you should think of that, 'okay, maybe the market is looking at those trigger changes much before they actually play on the ground, and maybe I'm still right, and I should still hold on to the position.' So not only momentum I am just saying that the whole point is that triggers will come later, so why sell out?

Rohit Chauhan: Technical analysis. So I can almost see and hear the gears churning because I've been thinking on the same lines for the last maybe three years now. And I saw it happen with some of my positions where the market got it bang on and the numbers and the fundamentals came at a much, much later standpoint. So, although I don't practice it to that extent, a lot of investors I see use this whole technical plus fundamental, and I think there is merit to it. Again, how do you blend it? Again, I don't have a good idea about it. But I think that's where you're coming from. So from the way I'm thinking, these are all different data points, there is a momentum aspect, how traders are looking at it, there is technical, and there is fundamental. At least my conclusion as of today is that it's a question of what weightage you want to give at that point in time for that stock in that context. So it's very difficult to be formulaic in that sense. I could be looking at a company, maybe I'll give two extreme examples. I could be looking, let's say, at a company like an HDFC Bank or something. By the way, I don't hold it, but I'm just making it as an example. So I would be looking at that company and saying very high quality, consistent performance, this and that. And I'll give it a little more weightage on the fundamental standpoint and I will say, 'If the market is getting it a little wrong, and selling it off, etc, I'll buy it, I will wait on it because the numbers will eventually catch up.'

So again, I have to have a lot of patience. It's like by the time ITC became a meme stock, it is something like that. Like, who knows which stock will become a meme stock? But at least the numbers will catch up and I can give more weightage to the fundamental aspects. While there are some stocks which are so volatile, more than the fundamentals, maybe there are other variables, which I should look at. Maybe I should look at the momentum aspect of it. Maybe there are technical aspects, I should look at. And then there are some stocks where the fundamentals actually are more or less unknowable or maybe it's very tough. Like, for example, if you're buying a very highly spectacle metal stock, by the time the fundamentals come through, the story is all done. So maybe fundamentals should get much lower weightage than some other approach. So, I'm now thinking that it's like a toolkit. which tool do you pull out for which stock in a specific context? That's my thought process currently. So no standard way, just pull these different tools out and start applying them and see. Earlier, I used to have just this value tool, stock cheap, below a certain point, buy, and then sell, and then exactly the point you mentioned, stock appear cheap, the fundamentals appear decent, but the stock started kept crashing, and then I had no tools in my toolkit to evaluate it on any other parameter. And that's how I'm thinking, like, bring all these tools in and think of it from a different angle. Again, weightage which one we will use, and in what manner I think it varies by context and stock.

Puneet Khurana: Yeah, brilliant point. So, process-wise, I think we are pretty much covered. See I'll just give you a context of why we asked all these questions, right? The majority of the time, first of all, no amount of a couple of hours is not good enough to understand everything around what kind of work we do. So when we were restarting the podcast, we had thought that a lot of time of podcasting goes into background building and all that kind of stuff. And we decided that this time around, none of that sort unless and until it's really important to the context or it's not available in the market, and we'll go straight to investment processes and figure it out. Even then I still think that we should do more, one larger picture of the session, and then one more deep dive into certain nuances, and that would be even more important to get long. Is that what you are saying?

Rohit Chauhan: Puneet, let me share one very good, I think I won't call it insight, but something which I came across a few months back. It is a very good way of thinking about investing. Now, there is this gentleman, and I can maybe share the link at a later point, this gentleman, he talks about learning in different contexts. You know, I'm a big proponent of figuring out how to learn better. So there's this whole thing around wicked domains, these are ill-structured problems in wicked domains. It's like a very interesting-sounding phrase, but what it means is an ill-structured problem where you don't even understand the structure of the problem. Like, for example, in our schools, and everywhere we go, we are asked the question, ‘okay, what is four plus two?’ And you know what the question is, and you can come up with a straight answer. Investing does not have a clear problem defined, and the wicked domain, part of it is basically you don't get immediate feedback. So, this gentleman talks about how you learn in situations where the problem is not structured, and the feedback is very delayed, which is what investing is. And he talks about games and both Manish and myself once played poker also, and that's a recent obsession of mine. That is partly a structured problem in not a wicked domain, but investing.

So long story short, what this gentleman said was, the best way to learn in such domains is via a case study method. Like look at companies, because people talk about this formula and that method, but if you're going to do this, and there is this whole craze around mental models, what I found is that, unless you know the context, mental models are very tough to apply. I mean, I have found, I started looking at it, and then gave up because if you don't know the context, you can't go through 150 mental models. And what do you do with it? But I found this case study method to be very beneficial. So I think where I'm coming from is your second point, that whenever I look at somebody's idea or my own idea, what I will do is I will take that particular idea out and I will go through the same process, which you are going through. How was the buy done? How was this scaling done? What were the sell criteria? And how does it match with the approach I have now? And what are the triggers? And what is the context? So, I think that's a very good point. I think I've started doing that. And I started making notes of my own, where I am looking at my own prior success failure, somebody else's prior success failures, and just creating sort of my own personal case studies okay, ‘what went wrong, what went right?’

Puneet Khurana: If you're up to it now we will do it again. I mean, we'll get into a session where we'll go into case studies and probably talk more specific processes around. If you are up to it and you're willing to share it, it will be a great session to have. Manish, you had a question?

Manish Dhawan: No, I think during the conversation Rohit answered the topics, but this would be fascinating, this discussion of case studies can be another session.

Puneet Khurana: Yeah, so I mean, absolutely great session Rohit, I'm parallelly keeping an eye on the time and watching it there. And I don't want to stretch it way too much. But it was a great pleasure talking to you again. We're catching up after a long, long time. Really good to get insights. We'll again get in touch later on for other things but absolutely brilliant for the

listeners. Probably they'll take away a lot of nuggets, which generally get un-talked or unnoticed in the whole wise gyan world in which we live. Some of the applicable nuggets get lost in the middle of those. So, thank you so much for your time, Rohit.
Rohit Chauhan: Thanks for having me.

Manish Dhawan: Yeah, Rohit it was a pleasure having you. Really appreciate it. Thank you.
Rohit Chauhan: Thank you.

Puneet Khurana: All right, Rohit. See you. Bye.
Rohit Chauhan: Thank you. Bye.