

Buying a PUT option on Fear.

A basket investing strategy tested for 16 years, aimed at building portfolios in the troubled times against your emotions & controlling risks efficiently.

Preface

In the recent times, capital markets have been very divergent in nature. Most of the investor's portfolios have drained in value whereas the broad market indices like NIFTY & SENSEX have been quite resilient to this fall. Large cap stocks are all in the green and command a strong valuation, at the same time the very discounted mid & small caps show no sign of revival. In spite of knowing these facts it is tough for investors to control their emotions and buy into the stocks that have lost a lot of value irrationally because of the feared markets.

We agree that it is difficult to practice than to preach & hence Instead of preaching to follow non-emotional investing, we have done a study to build a strategy that is capable of providing a viable and a risk controlled approach towards benefiting from market crashes like the current one.

In analogy, how to buy a PUT option on the currently prevailing fear in the mid/small cap stocks.

INDEX

- 1) Brief Strategy Outlook
- 2) Methodology
- 3) Returns
- 4) Stress Testing
- 5) Historical Baskets
- 6) How to invest in this basket?

Brief Strategy Outlook

This strategy aims at buying into a diversified basket of emerging companies (Market capitalisation between Rs. 250 to 5000 crs.) with high earnings quality at a time when we can quantify the fear in the markets so we can create wealth as the fear subsides and markets become more rational. This methodology also involves re-balancing the basket with a semi-active approach based on how well the constituent stocks of the basket fair through the test of time.

After assessing effectiveness of strategy over 16 years, following is a typical structure/expectation of the resultant basket:

- **Composition:** Comprises of 50 to 150 Stocks (Equally Weighted), thereby massively minimising unsystematic risks.

- **Expected Returns:** 150% (Absolute in 4 years period) i.e. CAGR of about 25% (As per back-tested historic performance of this methodology over 16 years)

- **Risk:** Maximum Drawdown over the 16-year period (Holding period 1 year) is -10%.

i.e. If you were to buy the basket of stocks as per the strategy and hold it at least for 1 year, by the end of 1 year the worst performing basket has a drop in value of 10%.

Note: Drawdown just indicates momentary drop in value & is a measure of unreal loss. Not a single portfolio constructed using this methodology has given a negative growth in any given 3-year period.

Even though the risk-adjusted returns & characteristics of this strategy are very encouraging, we still assess the impact of mis-timing this strategy towards the end of this document. It's to be noted that this methodology is very forgiving if you mis-time the markets it still stands to yield fairly high, risk adjusted returns just that the returns get delayed by a few quarters.

Exhibit 1: Absolute returns on basket investment basis this strategy.

Time when basket was bought	Absolute Return (%) from the date of investment in the basket created as per the strategy.																
	1 yr	2 yr	3 yr	4 yr	5 yr	6 yr	7 yr	8 yr	9 yr	10 yr	11 yr	12 yr	13 yr	14 yr	15 yr	16 yr	YTD
Sep-02	55%	120%	272%	326%	436%	384%	558%	981%	1095%	1500%	1896%	2666%	3155%	3523%	3457%	3883%	4632%
Feb-04	43%	121%	125%	199%	132%	337%	420%	547%	745%	853%	1486%	1528%	1721%	2133%	2449%		2524%
Jul-06	57%	41%	35%	117%	158%	192%	270%	377%	708%	729%	854%	1081%	1035%				1068%
Sep-08	2%	70%	70%	112%	143%	291%	419%	513%	362%	741%							878%
Sep-09	65%	56%	78%	65%	196%	255%	313%	362%	457%								435%
Sep-11	0%	-13%	87%	119%	165%	191%	233%										231%
Sep-12	-10%	111%	172%	198%	222%	247%											261%
Sep-13	134%	192%	252%	316%	277%												273%

Methodology

This methodology follows a 3-step process as follows:

1) Timing & quantification of fear in capital markets: Directionally, there is a very high degree of correlation (~0.87% , measured from 2003 until 2018 and excluding outliers) between Blue chip driven market indices like NIFTY & the broader markets if we ignore outliers. I.e. When the NIFTY gains even the broader market gain & when nifty loses even the broader market loses value. However, the degree to which broad markets move w.r.t to the NIFTY is very crucial. I.e. If an up-move of 10% is observed in NIFTY over a few months at the same time if the broad markets move up 5% or 10% or 15% depict a very different picture & represent a very crucial barometer of preference of investors. This co-relation drops to 0.61% if 15 outlier months are included in a 18 year correlation, indicating that there is a candid spread that exists between NIFTY & the broad markets for shorter times which is sporadic & emotion/fear driven driven.

We identify the spread between % Drawdown in NIFTY & % Drawdown in broad markets as the “Flight of capital spread”. I.e narrower the spread higher is the allocation within capital markets shifting from blue-chips to mid/small caps (A classic characteristic of Bull markets). Broader the spread higher is the allocation within capital markets shifting from mid/small caps to the constituents of NIFTY (A bear market characteristic). In either case this spread has to rationalise either by NIFTY moving closer to the broad markets or vice versa. (Ref. Exhibit 2 & 3)

When this spread starts skewing beyond 18-20% it indicates the emotional quotient of the capital markets as a whole & mis-pricing basis emotions & fear begins to take effect. A spread of over ~20% has proved to be instrumental in suggesting a significant irrational pricing of mid/small cap stocks & allocations in mid/ small cap space during such times has proven to be fundamentally instrumental in creating wealth over the following 3-4 years periods.

A spread of ~26% exists as on date 30/09/2019 and hence basis the archival and analytical evidence we believe that we are at a good spot in time to build onto a mid/small cap portfolio.

Note: We’ve used S&P BSE SmallCap Index as a measure of broad markets as it constitutes 714 stocks that have at least Rs.500 mn. (50 Crs.). worth of annualised traded value, which makes it a relevant benchmark for measuring the broad markets in purview. Also, the mean market capitalisation of Rs. 2755.36 Crs.(As on 30th Sep 2019) of the constituents is very much in line with the focus of this strategy on companies with a market capitalisation of Rs. 250Crs. to 5000crs. [Click here](#) to download the detailed methodology document on S&P BSE SmallCap Index.

Exhibit 2: NIFTY Drawdown vs. S&P Sensex Small Cap Drawdown

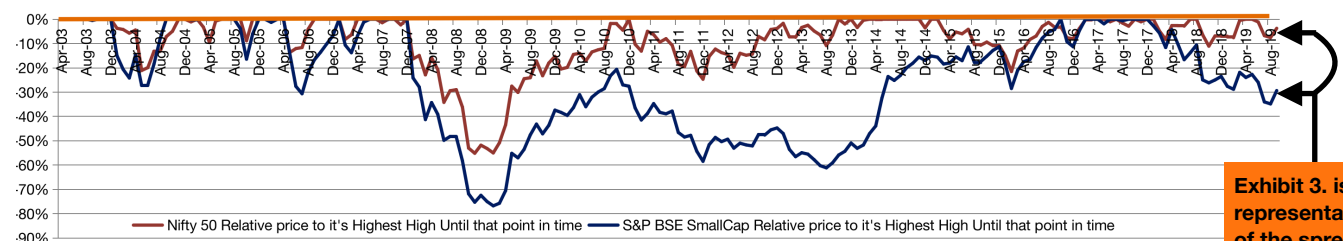
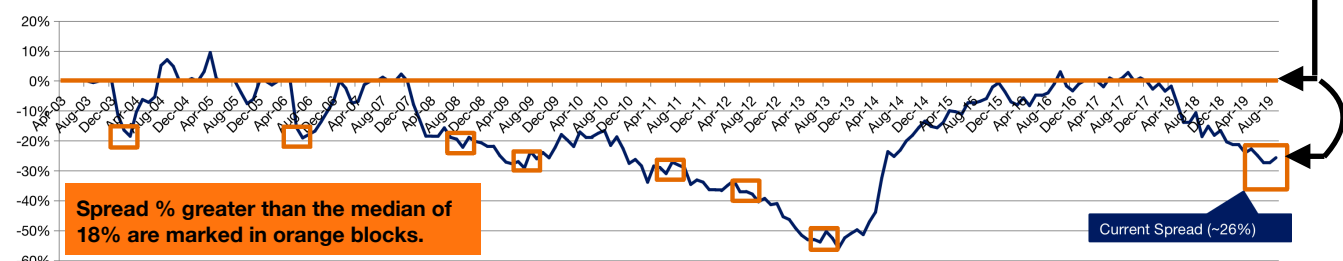


Exhibit 3: % Spread between Drawdown in NIFTY & Drawdown in S&P Sensex Small Cap Index from respective highest high’s until the corresponding point in time.



2) Stocks vs. basket approach & basket creation: Basis the above quantification of fear we now move towards what stocks to buy, how to buy & how to manage the portfolio of mid/small caps. Cherry picking of stocks in emotionally driven priced stocks can pose a risk of further irrationality in the same stock; our goal is to benefit from change in macro environment from fear driven to rationality driven. Our analysis suggest that a more suitable approach to meet this goal is to invest in a basket of emerging companies from 250crs. to 5000 crs. market cap as they stand to benefit the most. However, we have used some matrices for identifying good earnings quality to filter out companies with a strong potential for growth. As the domain is emerging companies, which are yet to set on a path of aggressive growth, we have not placed importance on earnings growth but on the quality of earnings. We believe that high quality of earnings is a result of some inherent non-quantitate strengths of a company, like branding power, Intellectual Property, Moat etc. & hence these businesses possess the ability to scale up faster and efficiently. We place great amount of importance on a earnings quality assessment ratio (EQUAR) designed by our team to measure the cash generating abilities & verify how genuine the reporting of financial statements are.

Earnings Quality Assessment Ratio (EQUAR): We place real cash outflows like Terms Debts, Dividends, W-cap debts & Retained cash against the operational profits to assess the quality of operating profits, as real cash outflows verify the ability of businesses to be able to generate real cash and not constrain the operational profits to P&L level. Also, a below normal ratio suggests the possibility of inflated profits for P&L reporting and hence discards such stocks from our basket.

Return Ratios: Alongside EQUAR, we also place importance on the fact that any emerging company even though is not optimal in performance already, but should at least be able to generate a Return on capital employed (ROCE) that is higher than the mean of ROCE's of India's largest companies (Constituents of NIFTY). Exhibit 4 shows the Average ROCE of Nifty 50 Companies, which brings us to 18% as the minimum ROCE that should be expected out of an emerging business. Added to this we provide some scope of leverage to emerging companies and hence, expect a Return on Equity (ROE) of 15% as the base requirement, When both of these ratios are paired they take care of reasonable leverage on the balance sheet as-well to a good extent.

Exhibit 4: Average ROCE of Nifty 50 Companies

Average ROCE of Nifty 50 Companies	FY19	FY18	FY17
	18.13	18.09	18.27

Basis Market Capitalisation, EQUAR & Return Ratios we have created a basket of 70 stocks from market cap 250 Crs. To 5000 Crs. Placing equal weights on all stocks to phenomenally reduce the unsystematic portfolio risk.

Stress Testing

Despite the fact that assessment of fear in the market basis the “Timing & quantification of fear in capital markets” methodology has proved to be instrumental in the historic assessment. Let us assume for the sake of stress test that this time we go wrong with timing the market fear and market is going to further correct. In this case, we will rely on the inherent strength of a basket being created basis point 2 & 3 of the methodology paragraph above and assess the CAGR’s, absolute returns & risk. If, as on 30th Sep (As the annual reporting of companies concludes by this date) of all the years from 2002 to 2018 a basket investment was done basis the basket creation and rebalancing methodology ignoring the time assessment. The return matrix isn’t very much different, only the maximum draws for the initial period increases but in any 3-4 years period still the CAGR rationalises. This depicts intrinsic strength of the methodologies used for the selection of basket constituents and the rebalancing methodology.

The below depicted Exhibit 5, shows the Returns of a basket of stocks bought in any given year irrespective of the where the market was in terms of Bull/Bear. If we invested in a basket created basis the strategy in a year where bull markets peaked out, or the bear markets bottomed out irrespective of the timing the returns were as follows:

Time when basket was bought	Absolute Return (%) (Stress testing of baskets)																YTD
	1 yr	2 yr	3 yr	4 yr	5 yr	6 yr	7 yr	8 yr	9 yr	10 yr	11 yr	12 yr	13 yr	14 yr	15 yr	16 yr	
2018																	-16%
2017	-8%																-16%
2016	29%	21%															-2%
2015	32%	66%	48%														44%
2014	31%	52%	79%	75%													65%
2013	134%	192%	252%	316%	277%												273%
2012	-10%	111%	172%	198%	222%	247%											261%
2011	0%	-13%	87%	119%	165%	191%	233%										231%
2010	-8%	6%	3%	101%	133%	170%	208%	238%									230%
2009	65%	56%	78%	65%	196%	255%	313%	362%	457%								435%
2008	2%	70%	70%	112%	143%	291%	419%	513%	362%	741%							878%
2007	-23%	-2%	69%	100%	147%	201%	366%	584%	680%	815%	1242%						883%
2006	50%	20%	55%	153%	165%	247%	298%	529%	692%	680%	652%	683%					790%
2005	29%	93%	52%	87%	203%	210%	312%	385%	634%	910%	1020%	1117%	1297%				1409%
2004	109%	158%	259%	209%	331%	611%	694%	857%	1092%	1671%	2244%	2252%	2225%	2619%			2884%
2003	40%	129%	193%	275%	267%	396%	688%	732%	961%	1226%	1827%	2344%	2582%	2742%	3237%		3527%
2002	55%	120%	272%	326%	436%	384%	558%	981%	1095%	1500%	1896%	2666%	3155%	3523%	3457%	3883%	4632%

Basket Bought in the year	CAGR (%) (Stress testing of baskets)															
	1 yr	2 yr	3 yr	4 yr	5 yr	6 yr	7 yr	8 yr	9 yr	10 yr	11 yr	12 yr	13 yr	14 yr	15 yr	16 yr
2017	-8%															
2016	29%	10%														
2015	32%	29%	14%													
2014	31%	23%	21%	15%												
2013	134%	71%	52%	43%	30%											
2012	-10%	45%	40%	31%	26%	23%										
2011	0%	-7%	23%	22%	22%	19%	19%									
2010	-8%	3%	1%	19%	18%	18%	17%	16%								
2009	65%	25%	21%	13%	24%	23%	22%	21%	21%							
2008	2%	30%	19%	21%	19%	26%	27%	25%	19%	24%						
2007	-23%	-1%	19%	19%	20%	20%	25%	27%	26%	25%	27%					
2006	50%	10%	16%	26%	22%	23%	22%	26%	26%	23%	20%	19%				
2005	29%	39%	15%	17%	25%	21%	22%	22%	25%	26%	25%	23%	22%			
2004	109%	61%	53%	33%	34%	39%	34%	33%	32%	33%	33%	30%	27%	27%		
2003	40%	51%	43%	39%	30%	31%	34%	30%	30%	29%	31%	31%	29%	27%	26%	
2002	55%	48%	55%	44%	40%	30%	31%	35%	32%	32%	31%	32%	31%	29%	27%	22%

Historical Baskets

Following are the constituents of the historical baskets that are created as per the strategy. We can identify a lot of leaders and wealth creators of today's times have formed a part of these baskets at an early phase, which is a great testament to the methodology of this strategy.

Constituents of the basket created as per the strategy for Feb-2004 period:

Apollo Tyres, Asian Paints, Force Motors, Berger Paints, Bharat Forge, Britannia Inds., Exide Inds., Colgate-Palm., Deepak Fert., Proc. Gam. Heal., Eicher Motors, Elgi Equipment, Glaxosmi. Pharma, GlaxoSmith C H L, A B B, Novartis India, Sanofi India, Castrol India, Bosch, Piramal Enterp., P & G Hygiene, Siemens, Sundaram Clayton, SML ISUZU, VST Inds., Automotive Axles, Godfrey Phillips, Rico Auto Inds, AGC Networks, Monsanto India, Indo Rama Synth., Finolex Inds., 3M India, Bharat Electron, Tata Elxsi, Dredging Corpn., MIRC Electronics, Motherson Sumi, Vesuvius India, Pidilite Inds., Dabur India, Torrent Pharma., Ipca Labs., Blue Dart Exp., Aurobindo Pharma, Aftek, Emami, Marico, IGate Computer, FDC, MPS, Jindal Steel, Godrej Consumer, T.V. Today Netw.

Constituents of the basket created as per the strategy for Jul-06

Ashok Leyland, SKF India, Astrazeneca Phar, Balkrishna Inds, Bharat Bijlee, Birla Corpn., Britannia Inds., Carborundum Uni., Exide Inds., EID Parry, Eicher Motors, Elecon Engg.Co, GE T&D India, Gammon India, GE Shipping Co, Greaves Cotton, Grindwell Norton, Guj Alkalies, Novartis India, Hind.Construct., Sanofi India, Gillette India, Castrol India, Tata Inv.Corpn., J B Chem & Pharm, Kirl. Brothers, Cummins India, KSB, Lak. Mach. Works, Schaeffler India, P & G Hygiene, Chola Financial, Unichem Labs., Jubilant Life, Voltas, Kennametal India, Automotive Axles, Apollo Hospitals, JBF Inds., NESCO, Balmer Lawrie, Titan Company, HCL Infosystems, GHCL, AGC Networks, India Glycols, Esab India, Bhansali Engg., Amtek Auto, Man Inds., Geodesic, Navneet Educat., Apar Inds., Mah. Seamless, Balrampur Chini, DCM Shriram, C P C L, S C I, NCC, Monnet Ispat, Pidilite Inds., Spentex Inds., CRISIL, Praj Inds., Guj NRE Coke, Savita Oil Tech, Blue Dart Exp., Adani Enterp., Shreyas Shipping, Astra Microwave, Kalpataru Power, Goldiam Intl., PSL, Biltcare, JSW Steel, NRB Bearings, Aftek, Lakshmi Energy, Jet Airways, IVRCL, Geojit Fin. Ser., Nucleus Soft., Emami, Wockhardt, TVS Motor Co., Madhucon Proj., Indoco Remedies, Marico, IGate Computer, Subex, FDC, Gateway Distr., Helios Matheson, NDTV, Birlasoft Ltd, MPS, Jindal Steel, Glenmark Pharma., Cadila Health., Opto Circuits, Balaji Telefilms, Godrej Consumer, Royal Orch.Hotel, Bharati Defence, Sh.Renuka Sugar, Allsec Tech., NIIT Tech., Prime Focus

Constituents of the basket created as per the strategy for Sep-08 period:

Apollo Tyres, Ashok Leyland, Asian Hotels (N), Astrazeneca Phar, Balkrishna Inds, Bata India, Berger Paints, Britannia Inds., Graphite India, Century Textiles, Proc. Gam. Heal., Elecon Engg.Co, Ferro Alloys Cor, Goodyear India, Greaves Cotton, G S F C, GlaxoSmith C H L, HEG, India Cements, Indian Hotels, Castrol India, Kesoram Inds., Peninsula Land, Orient Paper, Prakash Inds., Schaeffler India, SRF, JK Lakshmi Cem., SML ISUZU, Texmaco Infrac., Voltas, Kennametal India, Automotive Axles, Dynamatic Tech., JBF Inds., Balmer Lawrie, McNally Bharat, Rain Industries, Jindal Saw, Shanthi Gears, Titan Company, HCL Infosystems, Pennar Inds., Sarda Energy, Man Inds., Satra Properties, Anant Raj, Geodesic, Navneet Educat., IL&FS Inv.Manag., Kirl. Electric, Hercules Hoists, Apar Inds., Swan Energy, Agro Tech Foods., BEML Ltd, Guj. Ambuja Exp, Simplex Infra, Tata Metaliks, IFCI, Pidilite Inds., K S Oils, Havells India, Shrist Infra, Torrent Pharma., Nava Bharat Vent, Zodiac Cloth. Co, Country Club Hos, Savita Oil Tech, Jayaswal Neco, Vipul Ltd, PSL, Confidence Petro, Prism Johnson, Biltcare, Selan Expl. Tech, Era Infra Engg., Marg, Geojit Fin. Ser., Ahluwalia Contr., Engineers India, Indoco Remedies, Hatsun AgroProd., G M D C, Adit.Birla Money, BGR Energy Sys., Birlasoft Ltd, IL&FS Engg., Titagarh Wagons, Indraprastha Gas, GE Power, Opto Circuits, Godrej Consumer, Sadbhav Engg., IIFL Finance, Zylog Systems, Puravankara, Indiabulls Vent., Godawari Power, Pratibha Inds., K E C Intl., MIC Electronics, Omaxe, Nitin Fire Prot., H D I L, Bang Overseas, T R I L

Constituents of the basket created as per the strategy for Sep-09 period:

Aegis Logistics, SKF India, Astrazeneca Phar, Bajaj Electrical, Birla Corpn., Britannia Inds., Coromandel Inter, Deepak Fert., Elecon Engg.Co, Kansai Nerolac, GlaxoSmith C H L, Novartis India, Sanofi India, Hil Ltd, Zensar Tech., Tata Inv.Corpn., Tata Sponge Iron, Kirl.Pneumatic, Whirlpool India, Kesoram Inds., The Ramco Cement, Mangalam Cement, Orient Abrasives, P & G Hygiene, SRF, JK Lakshmi Cem., Texmaco Infrac., Thomas Cook (I), Tinplate Co., TIL, Unichem Labs., Voltas, VST Inds., Automotive Axles, Balmer Lawrie, Rain Industries, Shanthi Gears, Banco Products, HCL Infosystems, GFL, Esab India, Monsanto India, Swaraj Engines, Kirl. Electric, Amara Raja Batt., Swan Energy, Agro Tech Foods., Tata Elxsi, Aarti Inds., HBL Power System, Tide Water Oil, Sanwaria Consum., Havells India, Praj Inds., Torrent Pharma., Zodiac Cloth. Co, TTK Prestige, Ushdev Intl., Prism Johnson, Selan Expl. Tech, Oscar Investment, Indian Metals, Manappuram Fin., Zyodus Wellness, Kanani Inds., Sonata Software, Page Industries, Capri Global, Indrapr.Medical, ICRA, G M D C, Jyothy Labs, BGR Energy Sys., Castex Tech, Tulip Telecom, Gayatri Projects, Birlasoft Ltd, Polaris Consulta, Mahindra Holiday, Info Edg.(India), Indo Tech.Trans., Opto Circuits, Jagran Prakashan, Sadbhav Engg., AIA Engg., Balmer Law. Inv., Navin Fluor.Intl., Zylog Systems, NIIT Tech., Mcleod Russel, C C C L, Solar Inds., K E C Intl., Zee Media, KNR Construct.

Constituents of the basket created as per the strategy for Sep-11 period:

Atul, Balkrishna Inds, Bayer Crop Sci., Berger Paints, Bharat Bijlee, Blue Star, Carborundum Uni., Clariant Chemica, Proc. Gam. Heal., Garware Polyest, Goodyear India, Goodricke Group, Greaves Cotton, Grindwell Norton, Setco Automotive, G S F C, Tata Sponge Iron, J B Chem & Pharm, Kirl.Pneumatic, Whirlpool India, Pfizer, Phillips Carbon, Schaeffler India, Hawkins Cookers, SRF, Chola Financial, VST Inds., Warren Tea, Kennametal India, Empire Inds., JBF Inds., Andrew Yule & Co, Dhunseri Vent., TTK Healthcare, HCL Infosystems, GHCL, JTEKT India, Polyplex Corpn, Pennar Inds., Honeywell Auto, Jamna Auto Inds., Oil Country, Indo Rama Synth., Swaraj Engines, Geodesic, IL&FS Inv.Manag., Dhanuka Agritech, Swan Energy, Andhra Petrochem, Genesys Intl., Ashiana Housing, Ratnamani Metals, Fosco India, CMI FPE Ltd, Torrent Pharma., LS Industries, Som Distilleries, Ushdev Intl., Selan Expl. Tech, NRB Bearings, Shilpa Medicare, Kwaliti, Sonata Software, Capri Global, IGate Computer, Indrapr.Medical, MOIL, FDC, BGR Energy Sys., Lovable Lingerie, Tulip Telecom, Delta Corp, Hindustan Media, V-Guard Inds., Shoppers St., Sasken Technol., GE Power, Opto Circuits, Sadbhav Engg., Kama Hold., Balmer Law. Inv., Usher Agro, H T Media, Mcleod Russel, Pratibha Inds., Kewal Kir.Cloth., K E C Intl., Action Const.Eq., Everonn Educat., C & C Constrn., Tecpro Systems, eClerx Services, D B Corp, Ramky Infra, Innoventive Ind., Shree Gan.Jew., TD Power Sys., Eros Intl.Media, Bajaj Consumer

Constituents of the basket created as per the strategy for Sep-12 period:

Balkrishna Inds, Bayer Crop Sci., Bliss GVS Pharma, Abbott India, Carborundum Uni., Clariant Chemica, Tata Coffee, Everest Inds., Goodyear India, Zensar Tech., Whirlpool India, Hawkins Cookers, SRF, Siyaram Silk, SML ISUZU, Thomas Cook (I), VST Inds., Wheels India, WPIL, Automotive Axles, Marathon Nextgen, V I P Inds., Balmer Lawrie, Munjal Showa, Banco Products, Honda Siel Power, JTEKT India, Polyplex Corpn, Esab India, IL&FS Inv.Manag., Dhanuka Agritech, AVT Natural Prod, India Motor Part, Apar Inds., Amara Raja Batt., ISGEC Heavy, Vinati Organics, Tata Elxsi, P I Inds., Vikas Wsp, Butterfly Gan Ap, Savita Oil Tech, Hikal, Astra Microwave, KiteX Garments, Selan Expl. Tech, NRB Bearings, Kwaliti, Zyodus Wellness, Hexaware Tech., Page Industries, Indrapr.Medical, NBCC, Ajanta Pharma, MOIL, Century Ply., Polaris Consulta, Kavveri Telecom, Info Edg.(India), V-Guard Inds., Indraprastha Gas, Jagran Prakashan, Triveni Turbine, Balmer Law. Inv., Zylog Systems, NIIT Tech., Mcleod Russel, Kewal Kir.Cloth., K E C Intl., Texmaco Rail, MBL Infrac., Astral Poly, Insecticid.India, WABCO India, eClerx Services, J Kumar Infra, D B Corp, Innoventive Ind., Infinite Comp, Kirloskar Oil, Shree Gan.Jew., TD Power Sys., Alembic Pharma, Orient Refrac.

Constituents of the basket created as per the strategy for Sep-13 period:

CEAT, Clariant Chemica, Finolex Cables, Whirlpool India, Mah. Scooters, Hawkins Cookers, Rallis India, Somany Ceramics, Supreme Inds., VST Inds., Balmer Lawrie, TTK Healthcare, INEOS Styrolut., Monsanto India, Finolex Inds., Man Inds., India Motor Part, Apar Inds., Amara Raja Batt., Guj. Ambuja Exp, VST Till. Tract., Ratnamani Metals, Fosco India, Butterfly Gan Ap, Heritage Foods, Astra Microwave, Greenply Inds., Selan Expl. Tech, CCL Products, Suven Life Scie., Kwaliti, Zyodus Wellness, Nyssa Corp., Page Industries, Redington India, Indrapr.Medical, ICRA, NBCC, Ajanta Pharma, MOIL, Accelya Solution, Orient Cement, Indraprastha Gas, AIA Engg., Triveni Turbine, Balmer Law. Inv., Zylog Systems, NIIT Tech., Solar Inds., Multi Comm. Exc., Indiabulls Vent., Texmaco Rail, Take Solutions, Kaveri Seed Co., eClerx Services, D B Corp, BS, PC Jeweller, V-Mart Retail, Shree Gan.Jew., Bajaj Consumer, Alembic Pharma, Ujaas Energy, MT Educare.

How to invest in the current basket of 2019?

The current basket is comprised of 70* stocks, with equal weights allocated to each stock. The minimum capital allocation required to buy 1 basket is Rs. 3# Lakhs & further allocation can be done in multiples of Rs. 3 Lakhs.

The higher the allocation towards this strategy lower shall be the operational inefficiencies in rebalancing the portfolio, as rebalancing requires redistributing realisations from sales of underperforming stock, across all the performing stocks. In case of a smaller basket there can be delay in rebalancing the portfolio at an appropriate time. Any allocation above Rs. 10 lakhs shall have very low inefficiencies.

* Number of stocks may vary based on the day when the basket is bought, as the methodology of this strategy invests only in stocks that have a market capitalisation of Rs. 250 Crs. to 5000 Crs. & market cap is a dynamic parameter.

3 Lakhs is the approximate value of the basket basis the Stock prices as on 30th Sep 2019, the actual value maybe a little over or under 3 lakhs depending on the day when the basket is bought.

Visit bit.ly/basket-2019 to view & invest in 2019 basket created using this strategy.

Disclaimer

PM Securities Equity Research ("Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Equity Research. Equity Research services offered by PM Securities Equity Research under SEBI Registration No.: INH000006013; Corporate Office: 406, Atlantic Commercial Towers, RB Mehta Road Ghatkopar East, Mumbai – 400077. Ph: +91-22-62554701

This Report has been prepared by PM Securities Equity Research in the capacity of a Research Analyst having SEBI Registration No. INH00000601 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject PM Securities Equity Research and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. PM Securities Equity Research reserves the right to make modifications and alterations to this statement as may be required from time to time. PM Securities Equity Research or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. PM Securities Equity Research is committed to providing independent and transparent recommendation to its clients. Neither PM Securities Equity Research nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of PM Securities Equity Research. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of PM Securities Equity Research and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

PM Securities Equity Research shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the PM Securities Equity Research to present the data. In no event shall PM Securities Equity Research be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the PM Securities Equity Research through this report. We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

PM Securities Equity Research and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

PM Securities Equity Research may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with PM Securities Equity Research. PM Securities Equity Research or its associates may have received compensation from the subject company in the past 12 months. PM Securities Equity Research or its associates may have managed or managed public offering of securities for the subject company in the past 12 months. PM Securities Equity Research or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. PM Securities Equity Research or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. PM Securities Equity Research or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or PM Securities Equity Research's associates may have financial interest in the subject company. PM Securities Equity Research, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No
 PM Securities Equity Research has financial interest in the subject companies: No
 PM Securities Equity Research's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report. Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No
 PM Securities Equity Research has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report. There were no instances of non-compliance by PM Securities Equity Research on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification: The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimer for U.S. Persons

Disclaimer

PM Securities Equity Research is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by PM Securities Equity Research, including the products and services described herein are not available to or intended for U.S. persons. This report does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. "U.S. Persons" are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed "US Persons" under certain rules.

Additional Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA"). In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person. Additional Disclaimer for Canadian Persons PM Securities Equity Research is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by PM Securities Equity Research, including the products and services described herein, are not available to or intended for Canadian persons. This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services. Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations) PM Securities Equity Research ("PM Securities Equity Research" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Equity Research. There were no instances of non-compliance by PM Securities Equity Research on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. This research report has been prepared and distributed by PM Securities Equity Research ("PM Securities Equity Research") in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No. INH000006013.