



# CEO COMMENTARY

25-03-2020

## Dear Partners & Investors,

**Bright days are ahead, probably markets have already bottomed out or is in the process of bottoming out in the midst of the maximum scare.**

Stock indices are falling as there is no tomorrow and there is a stampede at the exit door. This time the fall is not restricted to mid or small caps or few sectors. Sea of red colour is visible everywhere.

Stock Market always look ahead and the long-term smart investors are the ones who will put money to work at this juncture. We want our investors to play smart by making lumpsum investments into equity funds with 3-5 years view and be part of the smart money movers.

### The reasons for the fall have been three folds:

- Corona Virus Impact and the effect on the economies are uncertain
- Corona Virus medicine/vaccine is not known to anyone
- Economic slowdown around the world expected to reduce Crude Oil demand. Crude Oil, demand & supply issues are not known and the impact it has on various economies

“ ITI Mutual Fund would like to convey this message to all of you.

**With the headlines screaming in your face about the gravity of the current situation, we strongly believe that you need to look beyond the headlines.**

**Invest with discipline, keep in long term perspective, remember your investment horizon and remain calm in times of distress are the key to long-term investing success.**

**We are confident that all our funds are well poised to generate good risk adjusted returns in the long run.**

### ITI Mutual Fund view, in the next 3-5 years:

- **Equities stack up as the best asset class to invest** and generate long term returns.
- **Small Cap segment will generate maximum returns** followed by Mid-Caps and Large Caps.
- **Small Cap segment returns will beat large cap returns by a wide margin** on a 1 year, 3 year and 5-year basis.
- **An outstanding opportunity of this decade:** When fundamentals are strong and the market valuations are at lowest point in two decades this becomes a very good investment opportunity.
- **We can prepare ourselves in this situation for a better tomorrow.** Nobody knows the bottom of the corona virus impact or bottom of the markets.

**Last 3 decades of investing has taught me four important things which has been proven right time and again:**

- **Respect Valuation:** When market valuation is very attractive, you have to bet saying that the current economic/ market situation will normalise. All equity market indices are trading at rock bottom valuations even when compared to global financial crisis periods.

- **Look for Triggers:** Look for upside/downside triggers depending on the market valuations.
- **Markets bottom out in midst of the scare and market peaks in midst of optimism.** At the thick of the problems generally markets bottom out. So, cutting all noise and focusing on long term investing makes a lot of sense.
- **Investing into bust and selling into booms is very important to make big returns.** This is the learning from all great investors like Warren Buffett, Seth Klarman, Charlie Munger, Benjamin Graham etc.

## HAPPY INVESTING AND BE SAFE.

During panic time, investors do make mistakes which they would not have made during the normal time. Unlike 2008 Lehman crisis this time the worries are on health as well as wealth, so the panic got accentuated.

### Few mistakes that investors should avoid: -

- **Don't throw the towel at the wrong time.** This is not the time to redeem your investments but stay calm and be the smart money mover who invests or doubles up your investments at the bottom valuations.
- **Don't mix Risk and Volatility:** Risk is high when you invest in an expensive market scenario and permanent loss of capital is more likely. Today the market valuations are quite attractive and the relative valuation risk is low. Volatility is the rapid movement of markets in the short time, which need not be a concern for an investor.
- **After every crisis the sector leadership would change:** What has worked in the last cycle (last 10 years) most likely won't work this time. We have realized that the sector that loses fancy does not regain soon.
- **Don't make decisions based on hearsay, rumours and baseless assumptions.** Stick to basics -Fundamentals, valuations, sentiment and triggers of the market.

### Post Crisis period performance of few Equity Indices:

- After Dotcom crash in the year 2000, NSE Midcap Index moved up 17 times between 2001-2007 period and post Lehman Crisis in the year 2008 the Index moved 7 times between 2009-2017 period.
- BSE Small Cap Index was up ~158%, BSE Mid Cap Index went up ~146% and Nifty50 Index went up ~90% returns between March'09 to March'10.

When earnings growth picks up from the pessimistic scenario, valuation multiples would improve and therefore the returns can be fabulous across market capitalisations. This is our expectation from equity markets in the coming years.

**This is the time to be rational, invest maximum you can according to your risk appetite, ride through the volatile period and make money, so we all can together laugh at volatility next time when it comes. In few years you would be very happy with your decisions.**

We would like to thank you for your trust in ITI Mutual fund.

As part of ITI Mutual Fund's preventive measures on COVID-19 outbreak & advisory issued by Ministry of Health & Family welfare, We encourage you to connect with us on our digital platforms.

We request you to submit transactions / requests by using various other modes i.e. AMC website ([www.itimf.com](http://www.itimf.com)) / RTA website <http://mfs.kfintech.com/mfs/> /RTA Mobile app / MFU website / MFU mobile application or connect with your financial advisor.

If you have any further queries, our phone line is available to assist you between 9:30 a.m. to 6 p.m. from Monday to Friday on 18002669603 (Toll free). Alternatively, you can also e-mail us at [mfassist@itiorg.com](mailto:mfassist@itiorg.com). We would appreciate your patience while we work on your query and ready to provide satisfactory responses.

Thanking you, and assuring you of our best services always.

Warm Regards

**George Heber Joseph**

CEO & CIO

ITI Mutual Fund

# Questionnaire for IFA Partners & Investors

In order to think objectively, we suggest asking yourself these questions and you will be able to answer correctly and may help you take rational decision at this juncture:

**Q** Visualize the situation 6 months or a year ahead; would these headlines still be headlines or would they be relegated into the past?

**A** @ITI Mutual Fund: We think the headlines will change and the fears will be different 6 months later.

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**Q** The recent drop in oil prices have also led to panic. However, ask yourself – is this good or bad for companies in India?

**A** @ITI Mutual Fund: Good for India and also for most of the companies in India may be negative for world growth outlook

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**Q** Is it possible for market to go down 10% per day for many days to come? Good quality companies have fallen 50% in a month and do I need to expect the stock to fall like this going forward as well?

**A** @ITI Mutual Fund: Looks very unlikely and have remote chance.

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**Q** Is the Indian Market alone falling? Is the fund that you have invested in only have fallen in last one month or is it an across the board phenomenon?

**A** @ITI Mutual Fund: No, all markets are falling and all fund NAVs are falling.

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**Q** And finally, before the outbreak of the virus, was the Indian stock market on a growth path with inflation clearly under check?

**A** @ITI Mutual Fund: India was recovering from the structurally positive measures taken by Govt (RERA, GST, Tax Cuts), Non-Performing Loans of Banks have peaked, provisions started coming down, interest rates became conducive, real estate prices started becoming dearer and inflation was under control.

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**Q** In 2017, whether you were comfortable investing when valuation risk was very high but low volatility was prevailing and in 2020 the valuation risk is very low but volatility is high. What makes you uncomfortable now, is it the volatility and sudden fall affecting your emotions? What is the right time to panic, when things are available much cheaper or when things are available much costly?

**A** @ITI Mutual Fund: Most of the market participants were comfortable and that is the reason almost 5-6 lac crores came to MF + PMS + AIFs put together. Valuations were expensive and was uncomfortable then. Right time to panic is when the valuations are expensive like in the years 2007, 2017 and not at bottom valuations like 2008, 2020.

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**Q** Is this the time to protect capital or invest and make returns?

**A** @ITI Mutual Fund: This is the time to invest in equities and make returns because price risk or valuation risk is relatively low.

**Q** Nifty50 Index has fallen approx. 40% in last 1.5 months and therefore it is already discounting next 3 years nifty earnings is going to be stagnant. Will corona virus impact could be a 3-4 years phenomenon or going to be a one or 2 quarters impact?

**A** @ITI Mutual Fund: Our base case is that It could be a one or two quarters phenomenon and not a 3-4 years problem.

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**Q** When the hysteria subsides, what will we be left with?

**A** @ITI Mutual Fund: Markets would be much higher than what it is today. Missed opportunity and left out feeling.

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**Q** What is the current situation? Bottom valuation markets, lot of fear, attractively priced stocks, low crude prices and possibly new opportunities?

**A** @ITI Mutual Fund: Yes, this is the situation as of now

**Q** Are there any triggers for markets to go up?

**A** @ITI Mutual Fund: Yes, Many triggers. Sentiment can change quickly if any drug discovery announcement comes through for treating COVID-19. Liquidity driven market rally possible as all countries governments are pumping liquidity through bond buying programmes and also central banks are cutting interest rates massively, Covid-19 spread automatically goes down – so incremental growth in new cases goes down.

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**Q** With the whole coronavirus problem, markets have become volatile to never seen before levels. But does that make them riskier?

**A** @ITI Mutual Fund: No, relatively price risk or valuation risk has come down quite a bit in a months' time as market kept falling. It has become very volatile and we are witnessing one of the most volatile periods in the stock markets history. Volatility and risk are two different aspects.