

# PORTFOLIO FACTSHEET

March 2024



**“Maybe, this time is different!”** is what the market seems to be building in. On 5-year rolling returns calculated since its inception, the BSE Small-cap Index’s returns have been higher than the current observation on only 1 of 10 occasions. With the market run-up, retail wealth (direct + through mutual funds) has risen to unprecedented highs. While the “green shoots” that triggered the current rally have reversed, the appetite to add more small-cap stocks hasn’t. Events that haven’t happened before are happening all the time now. So maybe this time it IS different; but, markets are pricing that in very well!

### March 2024: a tale of two halves

**F**inally; it was happening! The long awaited correction, that is. In the first 15 days of March 2024, while the Nifty corrected under 3%, BSE Smallcap Index fell over 10%. Notably, 80% of small-cap stocks retreated by more than 10% from their 52-week highs, with over 40% of microcaps plunging by more than 30%.

A little bit more, one hoped; but, that wasn’t to be. Turns out, March decided to end on a brighter note. By the end of the month, the Small Cap Index saw only a 5% decrease, and surprise, surprise, the Nifty actually ended up 2%.

Market participants were definitely cheering as fiscal 2024 came to a close. The

Nifty wrapped up with 29% returns, and the BSE Small Cap Index delivered 60% returns. Quite the reason to celebrate!

### Uncharted waters

We would be remiss in our duties if we don’t bring it to attention that empirically, on only 1 in 10 occasions have the 5-year rolling BSE small cap returns, and on 3 in 10 occasions have the 5-year rolling BSE 500 Index returns been higher than what they currently are. Markets are boldly navigating into uncharted waters.

This is especially noteworthy, particularly given that the events that triggered the rally in November 2023 have receded.

In November 2023, it seemed that the Federal Reserve would pivot sooner than

anticipated, prompting markets to factor in seven rate cuts for CY2024. Expectations have since adjusted to a more realistic outlook. Presently, rate expectations across various durations exceed those of November. Please refer to Exhibit 1 for further details.

Exhibit 1: US rate estimates - now versus November 2023

In the month of	Implied rates									
	Dec-23	Jan-24	Mar-24	May-24	Jun-24	Jul-24	Sep-24	Nov-24	Dec-24	Jan-25
Nov-23	5.33	5.33	5.27	5.15	5.01	4.87	4.72	4.58	4.44	4.30
Dec-23		5.30	5.14	4.92	4.70	4.49	4.27	4.08	3.91	3.75
Jan-24		5.32	5.14	4.86	4.54	4.30	3.99	3.87	3.76	3.53
Feb-24			5.29	5.22	5.05	4.89	4.69	4.54	4.37	4.22
Mar-24				5.31	5.17	5.07	4.90	4.80	4.62	4.52
<b>Rate estimate (Mar-24 vs. Nov-23)</b>				<b>Higher</b>	<b>Higher</b>	<b>Higher</b>	<b>Higher</b>	<b>Higher</b>	<b>Higher</b>	<b>Higher</b>

Source: Bloomberg

Secondly, in December 2023, the BJP secured victories in three state elections. This led the market to perceive the likelihood of a third term for the BJP-led government as rising from zero to 100%. However, we maintained our stance that the market had already priced in a continuation of the policy stance at the centre prior to the state election results. In our March 2024 webinar, we covered a lot of ground. If you missed it, you can catch a recap [here](#).

### Driven by retail flows

The robust rally in small and micro-caps can be attributed to significant inflows from retail investors. With the markets witnessing a notable uptrend, these investors have encountered an unprecedented wealth effect. As a result, many new investors are allocating additional funds to small-cap funds, evidenced by a fourfold increase in the number of folios in less than three years. For further details, please refer to Exhibits 2 and 3.

Exhibit 2: rising share of SMID market-cap

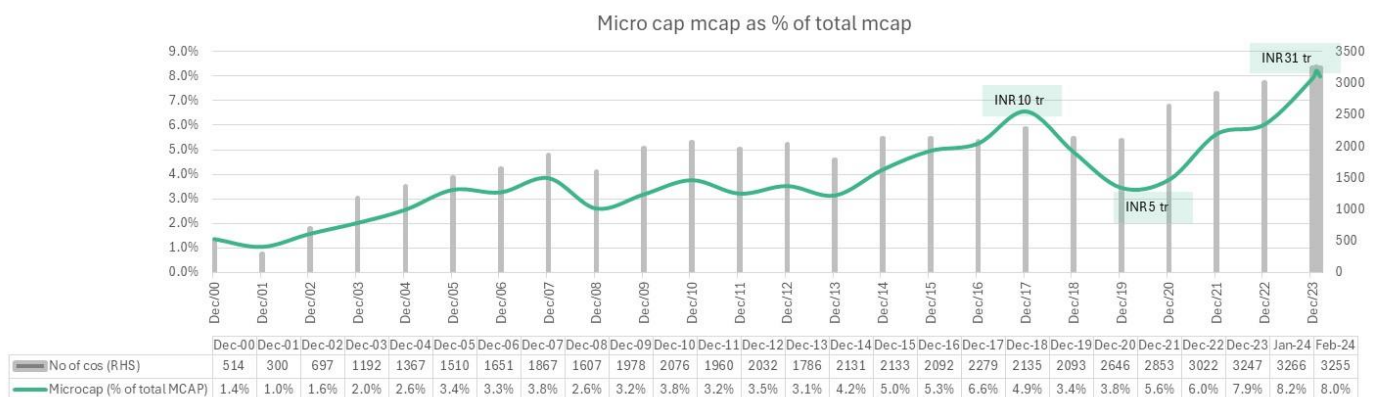
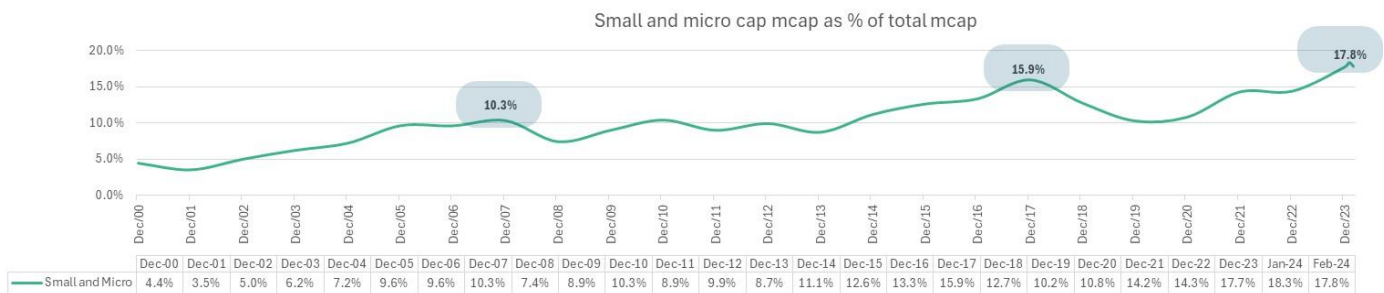
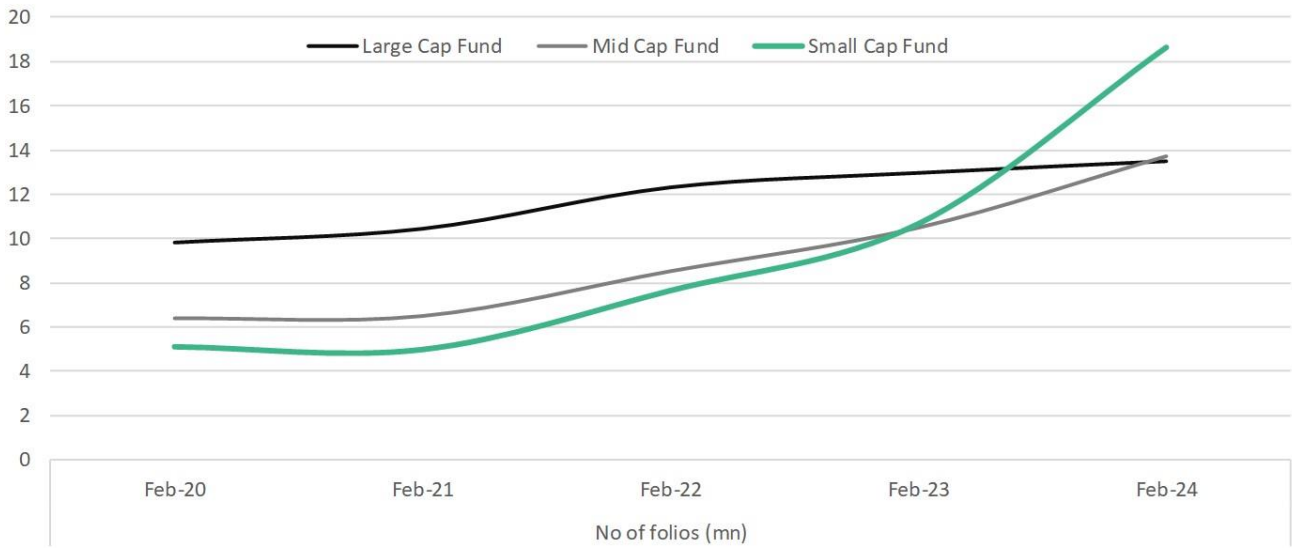


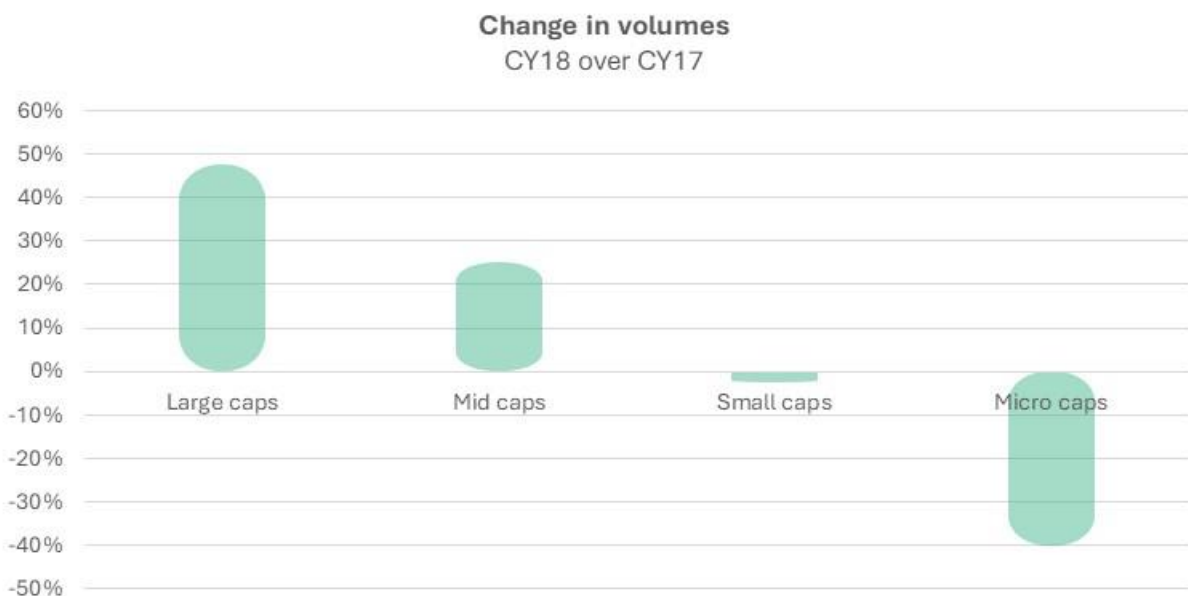
Exhibit 3: Rise in no of folios in small-cap funds



### Volume issues

Everything seems smooth sailing until the markets hit a correction. That's when the liquidity seemingly evaporates. What once appeared as a promising investment during bullish phases can suddenly become unmarketable in bearish conditions. We've seen this scenario play out before. Exhibit 4 has details.

Exhibit 4: change in volumes during a bear market compared to bull markets



But, is there any correction looming on the horizon? As we've mentioned in previous factsheets, the cause often becomes evident only in hindsight, and by then, stock corrections can be quite severe. While our previous factsheets have contained extensive data, for brevity's sake, we've opted not to reproduce the charts here. However, you can always click this [link](#) to access and review them.

## Miniscule assumption changes

This phenomenon occurs because, in a bullish market, we tend to make assumptions that we later regret during a bearish market. Exhibit 5 provides insights into how minor changes in assumptions can result in significant returns over an extended period.

Exhibit 5: small change in assumptions leading to large changes in output

	First decade	Next decade	Terminal
Volume growth (%)	15.0%	10.0%	3.0%
Price growth (%)	3.0%	2.0%	1.0%
EBITDA margins (%)	18.0%	17.0%	15.0%
Terminal growth (%)			4.0%
Taxes (%)	25.0%	25.0%	25.0%
Discount rate (%)	12.5%	11.5%	10.5%
Asset turns (X)	1.00		
Depreciation rate (%)	5.0%		

Output			
Paid higher PER (35X instead of 26X justified) due to market exuberance			
5-year absolute return assuming normalization of PER			
Investment returns (%)	Lower terminal growth	Lower asset turns	Lower next decade growth
-10%	✓	✗	✗
-5%	✗	✓	✗
-32%	✓	✓	✓

**Notes:**

- (a) Lower terminal growth assumed at 2% instead of 4% in base case
- (b) Lower asset turns assumed at 0.9X instead of 1X in base case
- (c) Lower decade growth assumed at 7.5% instead of 10% in base case

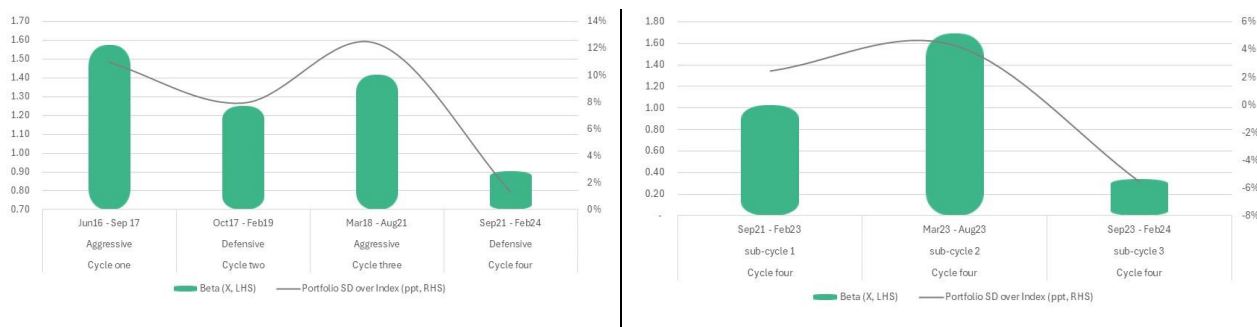
If you find yourself thinking, "This seems pretty basic— who makes these naive mistakes anyway?" consider whether we truly possess the capability to accurately forecast the terminal value of a business, such as BHEL, twenty years from now!

## So, how are we approaching it?

As we construct portfolios for newly opened accounts, we're consistently lowering the portfolio's beta while gradually increasing exposure to large-cap stocks. While there's a possibility that things might be different this time, the market seems adequately priced for such adjustments.

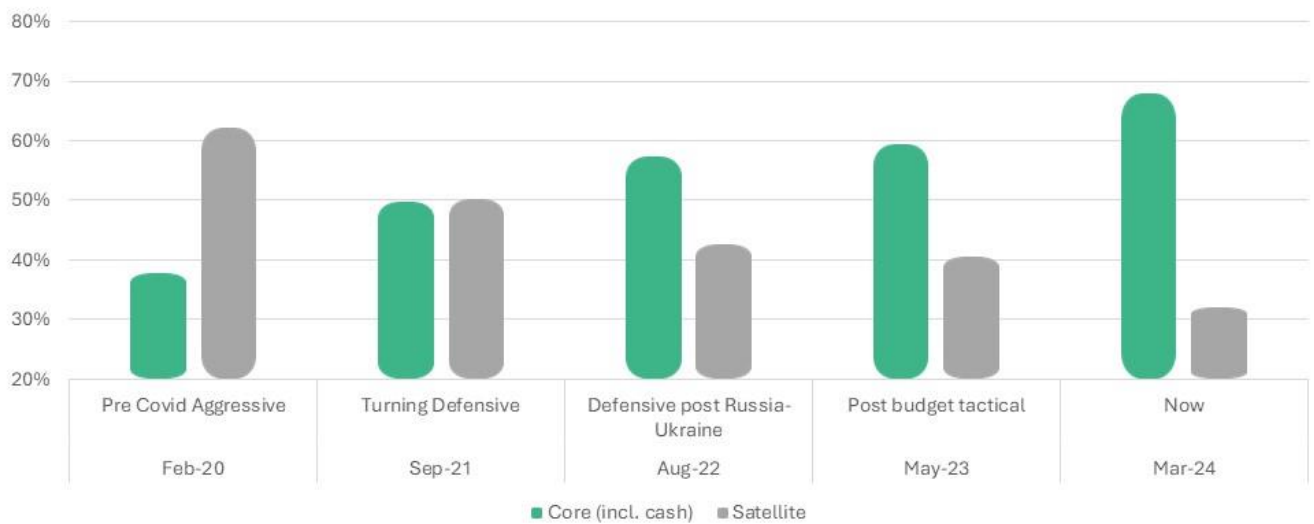
Just like Vern Gosdin famously sang "This Ain't My First Rodeo" in 1990, at Buoyant, we've encountered similar situations before. Exhibit 6 outlines how we've effectively managed portfolio risk in previous cycles, while Exhibit 7 demonstrates how we've tactically adjusted portfolio risk, even during defensive cycles, to capitalize on small-cap rallies.

Exhibit 6 and 7: Change in beta across, and within cycles



Finally, our exposure to small and mid-caps remains lower, while our positioning in the Core vertical remains elevated, as depicted in Exhibit 8 below.

Exhibit 8



## Sectoral allocation

Banking	30%
Insurance	11%
Automobiles	9%
Health Care	6%
Telecom	6%
Industrials	4%
Chemicals	4%
NBFC	3%
FMCG	3%
Information Technology	3%
Media	2%
Retail	2%
Materials	1%
Miscellaneous	1%
Others	4%
Cash and equivalents	11%

## Core vs. Satellite / Market-cap

Core (incl. cash)	68%
Satellite	32%
<i>Cyclicals</i>	11%
<i>Turnaround</i>	10%
<i>Value</i>	11%
Large Cap and cash	55%
Mid Cap	18%
Small Cap	27%

## Returns

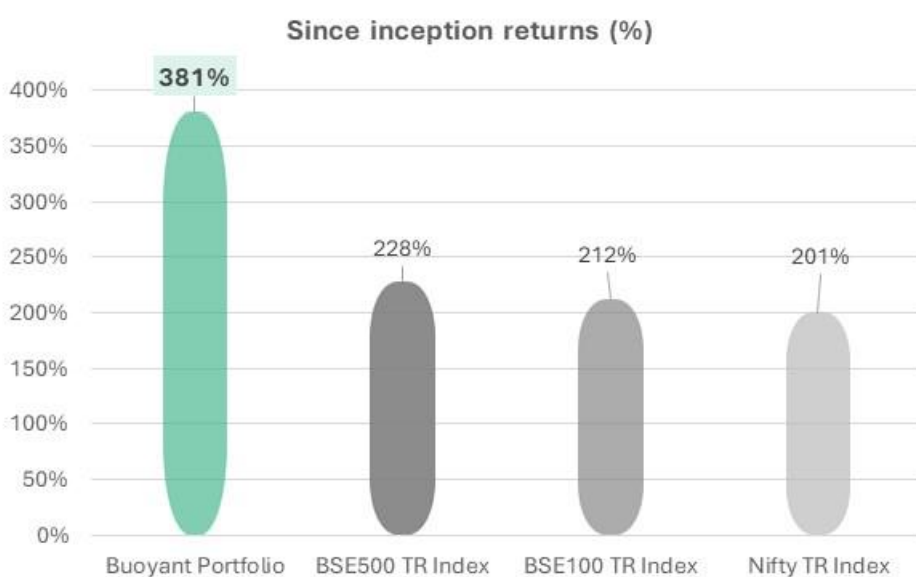
For Fiscal 2024, the Buoyant portfolio achieved a 43% return compared to the BSE 500 Total Returns Index of 40%. In compliance with SEBI regulations, Buoyant returns are calculated post fees and expenses. The performance chart is presented below.

External publications rate the Buoyant portfolio as a top quartile fund across longer periods (3 years, 5 years and 7 years). However, our primary objective is not to generate the highest possible returns. We rather seek to **generate superior risk-adjusted returns across market cycles**. One part of that product promise is risk-adjusted returns, and as is evident from the table below, as the markets have risen, we have reduced the risk in the portfolio (to 0.6X as measured by beta). The second part of the product promise is across market cycles. The Buoyant portfolio outperformed when the markets have risen sharply post-COVID. We intend to keep this up should the markets correct in the ensuing cycle.

## Relative performance

	<b>Buoyant</b>	BSE500	BSE100	Nifty
Since inception (Jun 16 till date)	22.2%	16.4%	15.6%	15.1%
5 years	22.4%	17.4%	16.1%	15.3%
3 years	29.4%	19.3%	17.7%	16.3%
2 years	23.2%	17.8%	16.3%	14.4%
Past year	42.6%	40.2%	34.2%	30.1%
Past month	-1.8%	0.9%	1.6%	1.6%

Note: BSE500, BSE100 and Nifty returns include dividends. More than one year returns are annualized. Buoyant returns are post fees and expenses. Source: Bloomberg



## Risk metrics

	<b>1-yr</b>	<b>2-yr</b>	<b>3-yr</b>
Sharpe ratio (X)	3.3	1.1	1.5
Information ratio (X)	0.3	0.7	1.0
Standard deviation (%)	10.6	14.2	15.2
Beta (X)	0.6	0.9	0.9
Sortino (X)	13.3	2.4	3.0



# Blogs and Media

Our recent blogs and media appearances

## Blogs

- [Ten-billion-dollar lesson – The Economic Times](#) 22 February 2024
- [Habit loop – Moneycontrol](#) 15 January 2024
- [Small cap cycles – Moneycontrol](#) 15 November 2023
- [Privileging the hypothesis – Moneycontrol](#) 5 September 2023
- [Credit cards – Moneycontrol](#) 18 July 2023
- [Junk bonds and market cycles – The Economic Times](#) 26 Jun 2023
- [Network effects: a double-edged sword – Moneycontrol](#) 12 Jun 2023

## Media Appearances

- [Jigar Mistry \(CNBC TV18\)](#) 13 March 2024
- [Jigar Mistry \(CNBC TV18\)](#) 2 March 2024
- [Jigar Mistry \(ET Now\)](#) 1 March 2024
- [Jigar Mistry \(CNBC TV18\)](#) 29 February 2024
- [Jigar Mistry \(ET Now\)](#) 28 February 2024
- [Jigar Mistry \(CNBC TV18\)](#) 11 December 2023
- [Jigar Mistry \(CNBC TV18\)](#) 16 November 2023
- [Jigar Mistry \(CNBC TV18\)](#) 8 November 2023
- [Jigar Mistry \(ET Now\)](#) 9 October 2023
- [Jigar Mistry \(CNBC TV18\)](#) 29 September 2023
- [Viral Berawala \(ET Now\)](#) 12 September 2023
- [Jigar Mistry \(CNBC TV18\)](#) 1 September 2023
- [Jigar Mistry \(CNBC TV18\)](#) 1 August 2023

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