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INSIDE

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Editorial - May 2019

Mr. Bhavesh Vora

The Elections 2019 has brought in a strong government at the Centre which will provide political stability for the next 5 years. By the time this issue is in your hands, the NDA government would be in place and new ministers would have taken charge. Barring very few instances of violence, the entire election process was quite smooth for which the Election Commission of India deserves full credit. Almost 600 million out of 900 million voters exercised their franchise. This number is more than the population of the entire North & South American continent.

The agenda of the new government will be to improve the ease of doing business so that more businesses can commence which will increase employment opportunities which in turn will increase the GDP of the country. However, a country as large and diverse as India faces challenges from various quarters. It could be lack of rains, it could be spike in crude prices, it could be exchange rate volatility, it could be cross border terrorism. Government has to be vigilant and take corrective steps to ensure that the damage is kept to minimum. Fortunately, our economy is on a strong footing with Foreign Exchange Reserves exceeding US $ 400 billion and growth near about 7%.

As economy grows so will the investor population grow.

At IEWA we continue to strive to reach out to various classes of investors (students, policemen, teachers, traders etc) and appraise them of opportunities of investment in capital market. We believe that an investor who is aware of the pitfalls survive in the long run and becomes a successful investor. We will continue our mission of education and reaching the unreached.

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The Blueprint to Profit from Rebirth of India and Sensex 100,000

What to expect?

The critical factors an investor must keep in mind while building a portfolio of life changing multibaggers on the way to Sensex 100,000.

Tanushree Banerjee
Team Equity Master

1. **The Blueprint to Profit from Rebirth of India and Sensex 100,000**

The Sensex moved up from 3,500 in 2002 to 35,000 in 2018. In other words, the benchmark index moved up 10 times in 16 years. Also, the index has moved up 4 times in the last 10 years. It was never a continuous joy ride. There were several bumps along the way. Some small and some big. But at the end of the day, investors who managed to stay put, compounded their returns at about 15% per annum. So yes, there are several moving parts to the Sensex' journey ahead. Many questions need to be answered. Will the earnings growth of Indian companies catch up? Can the current valuations sustain? Will the market remain flush with liquidity as US interest rates rise? Irrespective of these, going by the principles of reversion to the mean, one can assume that the Sensex EPS will grow at the rate of at least 15% per annum, over next 10 years. Also, the index will fetch a valuation of at least 18 times, which is its long-term average. 'If just these two assumptions hold true, the Sensex could be perched at nothing less than 100,000 by 2028. But investing in stocks is not about index gazing, Not at all! Rather it's about keeping your eyes peeled for the °3 Ms' in out of favour stocks.

2. **The Most Critical 3 Ms for Successfully Investing in the Rebirth of India**

Businesses that enjoy wide MOATS are typically the most favoured, So, they naturally fetch steep valuations. But at times, few of these get undervalued due to a temporary distress. At such times, the balance between their moat and margin of safety make them safe wealth creators. Time to latch on to them! When I say moats...I mean the compelling virtues that allow few businesses to withstand every storm. Some examples of moats are...

Strong Brands

The world's best known value investor, Warren Buffett, is a big fan of companies with strong brands...and with good reason. For him, these companies have unbreachable moats thanks to their brands. Strong brands give these companies pricing power even in a competitive environment. The ability to raise prices of their products and services, gives them an edge over their competition. Such companies typically enjoy high returns on capital.

Resilience to Economic Downturns

Over a ten-year,period, most businesses will go through ups and downs. So will the economy. We will see at least a couple of years of slow growth every decade in the Indian economy. The real mettle of companies is tested when times are bad. The good companies think long-term as far as their growth strategy is concerned. They will invest in their core business even during a downturn. They keep the big picture in mind. Short-term ups and downs in the economy do not deter them.

Low Debt

This is what Buffett said about debt in his latest letter to shareholders. Our aversion to leverage has dampened our returns over the years. But Charlie and I sleep well. Both of us believe it is insane to risk what you have and need in order to obtain what you don't need. Given my mantra of investing in safe stocks, I'm averse to recommending companies that are highly indebted.

MANAGEMENT QUALITY and the ability of the top management to execute growth plans while keeping the minority shareholders' interests in mind are non-negotiable criteria for the long term.

MARGIN OF SAFETY in DIVIDENDS is something that even the most seasoned value investors, at times, ignore, For they keep their eyes on the stock valuations. But logically, stocks that consistently offer healthy dividends are the best bets for staying in the markets even in the most difficult times. The 3 Ms could certainly point you to businesses that are the best contenders to rise to Sensex 100,000. But here's a question that you need to answer before that.

3. **<u>Which Stocks Are You Selling First? - Keep the Weeds Out</u>**

Since we talking about the Rebirth if India and the Sensex scaling new peaks, where does the question of selling stocks arise? Well, unless you urgently offload the poison stocks from your portfolio and free up capital, you will end up watering the weeds

Let me explain. :- You certainly do not want a Punjab National Bank, Gitanjali Gems, or a Vakrangee — like stock taking away all the hard earned from your good stocks. Do you?

Selling your winners and holding your losers is like cutting the flowers and watering the weeds.Buffett loved this line so much that he borrowed it for his annual letter, from Peter Lynch's book One Up on Wall Street. Simply because he believed that the decision to sell stocks requires as much thought and urgency. Therefore, waiting to get to Sensex 100,000 will be to no avail if you cut the flowers and water the weeds. Taking the selling decisions as responsibly as the buying ones will play a critical role. But the decision on which stocks to sell first is not always easy.

Imagine this simple scenario… Say you own stocks of three different companies. Stock A is offering 100% gains. Stock B's valuations have gotten expensive but is offering just 50% gains so far, Stock C has fallen 20% from your buy price (and has the potential to correct a lot more). Now, if you had to decide which stock to sell, I bet most readers would choose stock A. That's because when we sell, we want to pocket the maximum gains. Most investors equate booking profits with taking the big gains off the table. It's a nearly universal impulse. But it's a terrible investing choice.Studies show that most investors sell the winners too soon soon and ride their losers too long. A wise investor does just the opposite. He remembers the old adage: 'Let your winners run and cut your losers short.' But what if you have two winning stocks ?

Which one do you sell first? In other words, what should be your sequence of booking profits on stock A and stock B? Let me tell you at the outset that no single rule will tell you when to sell. That's because there's no single rule that tells you when to buy. The reason you bought the stock in the first place will deter- mine your sell strategy. And whether the stock fails to meet any of the criteria you had in mind when you bought it.

So, do three things when trying to prioritize stocks to sell:

1) Write down why you bought them.

2) Write down when you had decided to sell them.

3) Review the future fundamental prospects and valuation upside of the winning stocks.

You may then find that stock A has further upside. The 50% gains on stock B may be outpacing the improve- ment to its fundamentals. And stock C may need more scrutiny. It may simply have been a victim of poor sentiments rather than any deterioration in fundamentals. But if the management quality or the business model is a suspect, better to get rid of the stock right away."

"If both A and C have solid managements and wide moat busi- nesses or offer attractive dividends, you should consider selling stock B before the other two. Booking the profits and accumulating cash for your next safe stock could be a good strategy. Trust me, it's not easy to let go of the "B's and 'C's. There could always be a chance of these stocks gaining a lot after you have sold them.

You can take solace from the fact that even legends like Peter Lynch have admitted to selling winners too early. So, no doubt, the B and C stocks could trick you. But remem- ber that Sensex 100,000 offers you a very long runway. As long as you have enough stocks to ride and you manage to latch on to a few big winners, the journey will be fruitful."

4. **<u>Don’t Panic if Sensex 25,000 Happens Before Sensex 100,000</u>**

When the Sensex triples from its current level, many stocks will be left behind.

1) Some will rise less than the Sensex.

2) Some will stay flat.

3) Some will give negative returns.

4) Some will be kicked out for breaking the law.

5) Some will go to zero due to bankruptcy.

But then again...many stocks will beat the index too.

A long list of multibaggers will accompany the Sensex to 100,000.

There’s an old saying on Wall Street... The bull climbs the stairs and the bear jumps out the window. So far, the correction hasn’t been severe. The Sensex hasn't fallen sharply. But what if things turn ugly from here? What if the bear jumps out the window?

Don’t Panic

This is the first step. Don’t sell in panic if the market falls sharply. I'm not saying it will be easy. I don’t underestimate the power of fear. It can be paralysing. Even experienced inves- tors fall into its trap.

But if you give in to your fear, you will throw out the flowers along with the weeds.

"Now, there are some stocks you should consider selling. Having said that, can you imagine selling stocks like HDFC or TCS, just because the rest of the market is falling? Sadly, this is exactly what many investors do. Then, they make the situation worse for themselves. How? When the market starts rising again, they don’t buy these stocks back Like I said, fear can be paralysing. But you didn’t panic. You've held on to your stocks.Hopefully, they're of the “Safe Stocks’ variety. What next? It's simple. You should consider buying more.,

Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it’. - Warren Buffett

5. **<u>Can 7x Foreign Money Push the Index Up 3x?</u>**

After knowing the 50 irreversible trends, you must be wondering what else is left to know about the Rebirth if India? Well. I have saved the best for the last. Investors globally have begun to realize that India is on the verge of a series of transformative events. Ones that could accelerate the economy's growth to a level we haven't seen in millennia. Which is why gigantic sums of long-term foreign invest- ments are waiting to come into the country. Larger than anything we've seen before. In November 2017, a delegation from the Pacific Pension Institute (PPT) called on the Indian Prime Minister.

Simply stated, the Pacific Pension Institute or PPI, is a platform of 111 pension funds, endowments and sovereign funds from around the world. And PPI currently controls over US$ 15 trillion in assets. Assuming | dollar equals to 70 rupees, that comes to a whopping Rs 1,050 trillion or Rs 10,50,00,000 crores in assets. In comparison, here are the quarterly average assets under management numbers for some of the best mutual funds in India...

In comparison, here are the quarterly average assets under management numbers for some of the best mutual funds in India...

ICICI Prudential Mutual Fund	—	Rs 293,300 crores
HDFC Mutual Fund	—	Rs 289,200 crores
Reliance Mutual Fund	—	Rs 243,600 crores
Aditya Birla Sun Life Mutual Fund	—	Rs 241,100 crores
SBI Mutual Fund	—	Rs 205,300 crores
Source: HDFC AMC's DRHP	—	As of December 2017

Yes! This gives you an idea of how huge and significant PPI is;

Jow reckon this... 10% of PPI's assets is US$ 1.5 trillion. Now here's an interesting fact...The total amount of money FIs have invested in India, ever, is just US$ 200 billion.

So even at 10%, the funds from PPI would be more than SEVEN TIMES the amount of money that FIIs have put into Indian stocks markets since 1991. Which means even a fraction of the potential foreign find flows into India could easily propel the benchmark index up 3x! But even as the Sensex races to 100,000 over the next few decades, certain carefully selected stocks could hand you bigger...much bigger returns. I believe the Rebirth of India phenomenon could fire up companies in the bluechip space. And investors should not cede the chance to create massive wealth for decades.

6. <u>Rebirth of India = Investing in the BEST of Times</u>

First, you must congratulate yourself for completing the book and familiarizing yourself with the key elements of the Rebirth of India

If I were to summarise the essence of this book in one single live its would be this You are in the right place at the right time to make massive wealth that will last generations. I don't want to, even for a second, sound complacent about the scope of creating wealth with stocks during India's Rebirth phase. Finding stocks that will massively out per- form the index during this phase will need effort, rigour and patience, But, along with that, you must always remember this time as your 'chronological lottery'.

A lottery that allowed you to live through transformation from a developing country to a global Super Power A lottery that allowed you to be a part of India's biggest-ever wealth creation story.

7. <u>Life Changing Multi baggers on the Road to Sensex 100,000</u>

It is not everyday that you find not one ...not five ...but as many as fifty irreversible trends that could send the economy into a completely new orbit of growth. Even the economies like US, Japan, China, South Korea and Singapore have witnessed such phenomenon only once in the last few centuries. After their brilliant ride to the peak, neither the Japanese Nikkei nor the Shanghai Composite have gone back to their previous peaks. That too despite their economies being fairly stable.

India is probably witnessing so many positive irreversible trends after nearly 2,000 years!

These irreversible trends have the potential to snowball into a huge transformation. And this transformation could give birth to multi baggers which could have a life changing impact on your personal wealth. Hope your journey with winning stocks during the Rebirth of India becomes as exhilarating as putting together this book has been for me !

ITR Forms For Assessment Year 2019-2020- All you want to know

CA Dharmen Shah

Vide notification dated 1 April, 2019, the CBDT has introduced Income Tax (Second Amendment) Rules, 2019. Vide the said notification the CBDT has notified Income Tax Return (ITR) Forms for the Assessment Year 2019-2020 (Financial year 2018-2019).

In total 7 types of Income Tax Return Forms are being notified as under:

Form ITR - 1 (SAHAJ)

Individual being a resident (other than not ordinarily resident) having total income up to INR 50 Lakhs having income from salaries, one house property, other sources (Interest etc.) and agricultural income upto INR 5,000.

Form ITR - 2

Individual and HUF not having income from profits and gains of business or profession.

Form ITR - 3

Individual and HUF having income from profits and gains of business or profession.

Form ITR - 4 (SUGAM)

Individual, HUF and Firm (Other than LLP) being a resident having total income upto INR 50 Lakhs and having income from business and profession which is computed under section 44AD, 44ADA or 44AE. (Presumptive Tax)

Form ITR - 5

Person other than Individual, HUF, company and person filing Form ITR-7.

Form ITR - 6

Companies other than companies claiming exemption under section 11.

Form ITR - 7

Persons including companies required to furnish return under section 139(4A) or 139(4B) or139(4C) or 139(4D) only. This includes Charitable Trusts, Political Parties, Mutual Funds, University, College etc.

It is important to note here that from now onwards, Form ITR-1 SAHAJ cannot be used by the individual :

(I) having directorship in any Company or

(ii) individual who has invested in unlisted equity share capital or

(iii) individual who has claimed deduction u/s 57, other than deduction claimed under clause (iia)

(iv) or individual who is assessable for the whole or any part of the income on which tax has been deducted at source in the hands of a person other than the assessee.

From now onwards, facility of paper filing is available only to those who are aged more than 80 years at any time during the previous year and who are furnishing return in Form ITR-1 (SAHAJ) and Form ITR-4 (SUGAM).

Several Changes in the format and information sought in the Forms has been made for A Y 2019-20. Please consult your Tax Expert/ CA and understand so that you can submit correct details and file your Income Tax Returns in Time.

INVESTOR CORNER

Investor Education & Welfare Association was invited by Indian Institute of Corporate Affairs, Ministry of Corporate Affairs, Govt. of India for Workshop on **"Increasing Investor Awareness Through Outreach"** on 16th May 2019 at New Delhi for discussion on "Protection of investors' interest and financial literacy". The Investor Education & Protection Fund Authority (IEPF A) had given a project to Indian Institute of Corporate Affairs (IIC A) with the following objectives:

(I) Needs assessment of investors,

(ii) Developing communication material, and

(iii) Increasing awareness among investors.

The full day meeting was on to demonstrate / discuss various work done in with respect to above points. The meeting was well structured and was useful for right direction in the area of financial literacy and investor protection. Certain Radio jingles, short TV serias were played and suggestion were invited on the same. The survey report "India Assessment of Financial Capability 2018" was also discussed.

President Mr. Bhavesh Vora also shared their views on the mentioned subject. Mr. Rajiv Bansal (IAS - Additional Secretary & Financial Advisor- Ministry of Petroleum & Natural Gas-Government of India), Mr. Navneet Chouhan - General Manager, Investor Education & Protection Fund Authority), Mr. Santosh Parashar (Chief Programme Executive-Indian Institute of Corporate Affaires), Dr. Kamakhya Narain Singh - Director & CEO of National Centre for Financial Education was also present in the reference meeting and shared their views.

Suggestions and feed-back

We would appreciate your view, suggestions and feed-bank to make the **'INVESTOR WORD'** more useful and illuminating.

Your inputs and contributions too are

welcome on : info@iewa.in

-Editorial Committe

તમે નાણાકીય પિરામિડ બનાવ્યો છે ?

મિસ. ખ્યાતિ મશરૂ
વેલ્થ મેનેજમેન્ટ

નાણાકીય આયોજનની પ્રક્રિયામાં નાણાકીય પિરામિડ બનાવવાનું અગત્યનું હોય છે. દરેક વ્યક્તિ માટે તેનું અદકેરું મહત્ત્વ હોય છે. આ પિરામિડને સમજવા માટે સૌથી પહલાં તો તેને પિરામિડ કેમ કહેવાય છે એ જાણવું અગત્યનું છે. પિરામિડનું માળખું અનેક રીતે વિશિષ્ટ છે. તેમાં સ્થિરતા અને સમતુલા તથા મજબૂત પાયો રહેલાં છે.

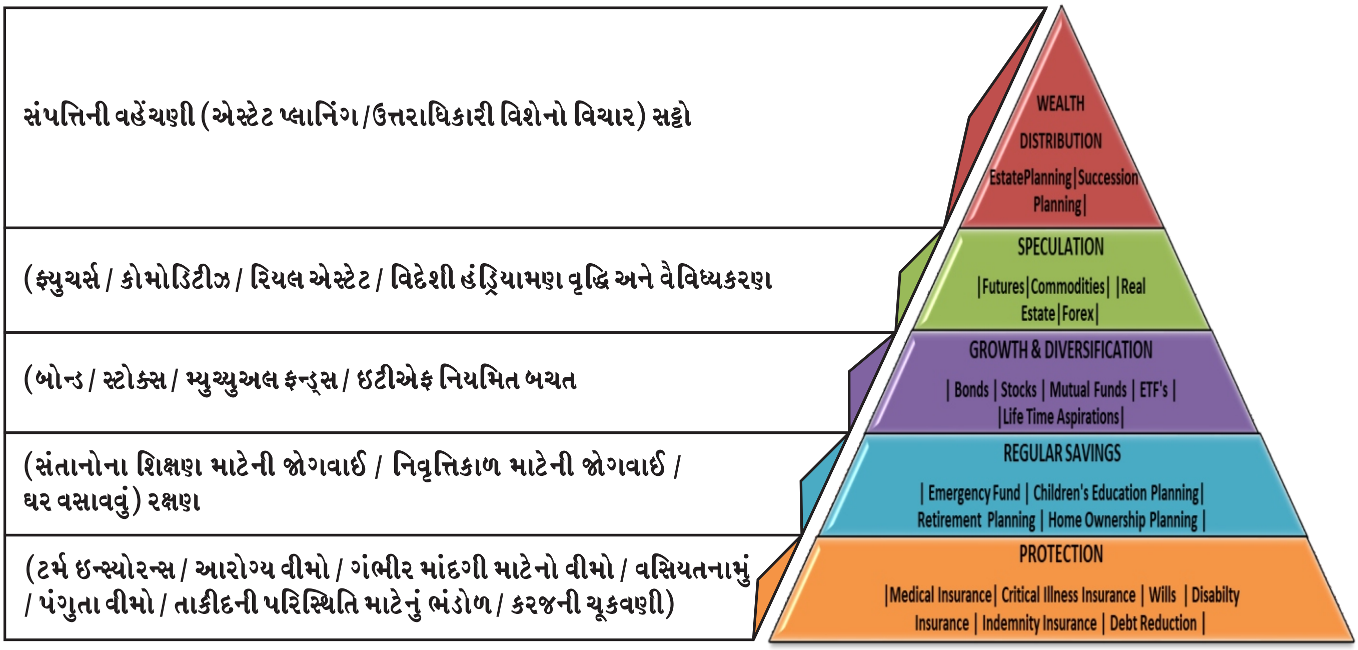
ઇજિપ્તમાં પિરામિડની રચના પથ્થરથી કરવામાં આવી છે. પ્રથમ થરમાં એટલે કે પાયામાં મોટાભાગના અને સૌથી મોટા પથ્થર રખાયેલા હોય છે. તેને લીધે મજબૂત પાયો રચાય છે અને તેના પર બીજા થર રચવામાં કોઈ વાંધો આવતો નથી.

આ જ રીતે પર્સનલ ફાઈનાન્શિયલ પ્લાનિંગના પિરામિડમાં પણ મજબૂત પાયો રચાવો જરૂરી છે. પાયો રાતોરાત નાખી શકાતો નથી અને તેના વગર બિલ્ડિંગ પણ બાંધી શકાતું નથી.

આમ, ફાઈનાન્શિયલ પ્લાનિંગ એક વ્યવહાર નહીં, પણ પ્રક્રિયા છે. પિરામિડનો મૂળભૂત નિયમ નીચેથી શરૂઆત કરીને ક્રમે ક્રમે ઉપર જવાનો હોય છે. બધાં જ પાસાં એક સાથે હાથ ધરવામાં આવતાં નથી.

યોગ્ય ફાઈનાન્શિયલ પ્લાનિંગમાં સમગ્રતયા વિચાર કરવામાં આવે છે, આંશિક નહીં. આ વાતને ઉદાહરણ દ્વારા સમજીએ. તમે નિવૃત્તિકાળ માટે બચત કરવાનું લક્ષ્ય રાખ્યું હોય, પરંતુ જો તમે તાકીદની સ્થિતિમાં જરૂર પડે એ નાણાંની જોગવાઈ કરીને રાખી ન હોય તો નિવૃત્તિકાળની બચત માટેનું આયોજન ખોરવાઈ શકે છે. એ સંજોગોમાં નિવૃત્તિકાળ માટેની રકમ તાકીદની સ્થિતિમાં વાપરી નાખવી પડે એવું પણ બને. તેને પગલે નિવૃત્તજીવનમાં શાંતિ મેળવવાની ઇચ્છા ફળીભૂત થાય નહીં. વળી, તેનાથી પરિવારે આર્થિક ઉપરાંત નાણાકીય નુકસાન પણ ખમવું પડે છે. જો મુશ્કેલીમાં સપડાયેલી વ્યક્તિ ઘરની એકમાત્ર કમાનાર વ્યક્તિ હોય તો વિપદા આવી પડે છે. નાણાકીય સમસ્યાઓ આવે ત્યારે ભલભલા લોકોનાં હાંજા ગગડી જાય છે. આવા વખતે બીજાં બધાં નાણાકીય લક્ષ્યો કે આયોજનો ખોરવાઈ જાય છે. ખર્ચ માંડ પૂરા થતા હોય ત્યારે બચત અને રોકાણનો તો સવાલ જ આવતો નથી. પરિણામે, જીવનનાં અન્ય મહત્ત્વપૂર્ણ લક્ષ્યો પ્રાપ્ત કરવાનું અશક્ય બની જાય છે.

નાણાકીય પિરામિડના દરેક થરની વિગતવાર વાત કરવા જેવી છે; અને તેથી જ તેની ચર્ચા આપણે હવે પછીના કેટલાક લેખોમાં એક પછી એક થર લઈને કરીશું.



SAVE YOURSELF FROM CREDIT CARD DEBT AND PONZI SCHEMES

CA Kavita B Upadhyay

Credit card debt is usually resorted to when all other option including personal loans are exhausted. It is unsecured therefore it carries very high interest rates. A credit card gives you the power to spend money even when you don't have the funds. Lots of young people misuse it by spending on frivolous things.

Stay away from credit card debt: Paying only the minimum is costly and will ensure that you have debt for a long time. Try to consistently pay as much as you are able towards your debts - you will be glad you did.

Key Features

- Interest rates on credit cards are probably the highest compared to other credit facilities. The interest ranges from 18-36% p.a
- Debt keeps accumulating via interest and penalties. If you are not paying off your outstanding balance before the interest free period expires then you will be paying a high interest rate. This can make it hard to reduce your credit card debt.
- As most credit card limits are low some borrowers tend to neglect the fact that the interest payment is relatively small on a month to month basis. This is a dangerous practice because the amount of interest you pay can quickly jump to exceed the value of your actual debt.
- Be very careful of having multiple cards and be very careful of taking up the marketing promotions from credit card providers when they actively try and get you to increase your credit card limit

Best wayto use credit card for our benefit is paying the total amount due every month with an automatic payment setup. That helps to get 1 - 1.5 months credit with zero interest rate. The amount gets debited only on the due date. But it is imperative that the spending is matched with the paying capability so that timely payments are made.

Steps to Avoid Excess Debt

- Set debt limits - Decide how much you can afford to be in debt. Then, make sure that your total debt is below this amount. You may also want to set a limit on how much money out of each paycheck you are willing to spend on debts. Having this sort of limit can be very useful in ensuring that you do not overextend your credit.
- Shop carefully for debts - If you do need a loan, be sure to do your research well. Always understand how much you will pay for your loan in interest and look for the lowest interest rates and the most affordable debt you can find. This will ensure that you do not end up overspending on interest rates. Once a year, check to make sure that you are still getting the best interest rates and best loan deals possible.
- Don't give into temptation - Once you show that you can handle some debt, many companies will be eager to offer you more credit. Companies may start sending you credit card offers and your lenders may offer you additional credit products. While it may be tempting to take out lots of new debt, you need to be wary of doing so. Only take out a loan or credit service when you really need to.
- Automatically have money go towards your bills - Many banks and employers will allow you to have some money automatically deducted from your paycheck. This can be a great way to ensure that your bills get paid promptly. Plus, since you won't even see the money, you are less likely to miss it.

Ponzi Schemes:

A Ponzi scheme is a fraudulent investing scam that promises high rates at little risk to investors. The scheme generates returns for older investors from their own money or money paid by subsequent investors, rather than any actual profit earned. The perpetuation of the returns that a Ponzi scheme advertises and pays requires an ever-increasing flow of money from investors to keep the scheme going.

How to Spot one? The Ponzi scheme usually entices new investors by offering returns other investments cannot guarantee, in the form of short-term returns that are either abnormally high or unusually consistent. It seems too good to be true. Investor must be very careful about such investment, there is nothing like extra ordinary returns.

The ultimate unravelling of a Ponzi scheme

- As more investors become involved, the likelihood of the scheme coming to the attention of authorities increases
- External market forces, such as sharp decline in the economy will cause many investors to withdraw part or all of their funds not due to loss of confidence in the investment, but simply due to underlying market fundamentals
- The scheme will collapse under its own weight as investment slows and the promoter starts having problems paying out the promised returns
- The promoter will vanish, taking all the remaining investment money

BUFFET & MUNGER'S PROBLEM WITH VALUE INVESTING

Mr. Dhirendra Kumar

The value of value investing has changed, and it's as much a problem for the world's largest investors as it is for us Every year, on a Saturday early in May. the annual shareholders" meeting of the Berkshire Hathaway Corporation is held in the American city of Omaha. Shareholders' meetings (AGM is the Indian term) tend to be dull affairs unless there's some sort of a corporate struggle going on, and even then, are of concern only to shareholders - themselves. In contrast, the Berkshire meeting is always interesting and fascinating, not just to those who have invested in the company, but also to practically every investor in the world.

The reason, of course, is the hours-long Q&A session with the two men who run the company

chairman Warren Buffett and his deputy, Charlie Munger (whose combined age is now 183). The questions are selected by a panel of well-known external experts and are not known beforehand to Buffett and Munger. They generally (but not always) concern some aspect of Berkshire's businesses.

However, Berkshire is an extremely diverse conglomerate, and the two old men, in their grandfatherly way, frequently take the answers out to general principles of business, investing and life itself. This makes the Q&A a fascinating teaching session for just about everyone.

In recent years, one of the most interesting topics that come up repeatedly is their evolving attitude towards investing in technology stocks. For the longest time, through the 90s and later, Berkshire did not invest at all in tech. The reason that Buffett always gave was that he did not understand technology. That was a demonstration of one of the often-ignored principles of investing, which is that investors should not dabble in something that they do not understand.

In Berkshire's case, they eventually invested in IBM, and then, a few years ago, in Apple. Presumably, at some point, Buffett and Munger realised that they, or their advisors, understood enough about these businesses. In any case. for someone who has upwards of $100 billion to invest, tech cannot be ignored because seven of the 10 largest companies (by market value) in the world are now what is broadly called technology. Berkshire is now the single largest shareholder of Apple. Now. a couple of days before the Omaha meet, Berkshire revealed in a regulatory filing that it has been buying Amazon shares .

It is notable that unlike their investments in other sectors. Berkshire's stellar track record is not replicated in tech. Berkshire did poorly out of IBM, and bought Apple very late and hasn't done well out of it. Worse, as Buffett and Munger themselves have admitted, one of their great failures was not buying Google. Back in 2004 or so, their own insurance company benefited enormously out of the then new advertising service of Google. They observed this, discussed it, saw that Google was a business with tremendous potential. and yet never invested in it. "We just sat there sucking our thumbs," Munger said of failing to invest in Google. "Maybe Apple was atonement."

In Amazon's case too, it is arguable that like many conservative investors. Berkshire is trying to compensate for past inattention to tech by making an investment that violates their long- held principle of value investing. Value investing has many aspects but at its heart is the principle it is critically important to not overpay for an investment. In response to a question on the issue, Buffett said, "The decision to buy Amazon's stock was just as much based on value investing principles as a decision to buy a statistically cheap stock. Value investing is about estimating and valuing future cash flows, not about how low a price-to-book or a price- toearnings ratio is for a stock."

For students and practitioners of the value investing principle (in which I count myself), this reality represents a big problem. Good stocks are severely overpriced by these traditional measures of value, in India as well as the world. There are no automatic boundaries to value investing. As Charlie Munger pointed out, all investing is value investing, in the sense that you expect your investment to be at a higher value when you sell it. This makes investors' jobs much harder.

(Author is CEO, Value Research)

12 RULES TO INVEST WISELY

(AND REAP BENEFITS IN ANY MARKET CONDITION)

Rule 1: Invest regularly

Rule 2: Start investing early in life (and get the power of compounding to work for your investment)

Rule 3: Never try and time your investments basis tips, market trends or economic outlook

Rule 4: Inflation and Taxes will eat into your returns. Therefore know your actual returns in hand

Rule 5: Diversify your investments across asset classes, to spread your risk

Rule 6: Balance and re-balance your investments as you age

Rule 7: Expect reasonable returns from your investments and sell, once you have got the returns you seek

Rule 8: Get over your mistakes and losses. Learn from them

Rule 9: Never invest or sell in haste (and regret later)

Rule 10: Avoid investing in complicated products you don't fully understand or products that offer unrealistic returns

Rule 11: Spend time on your investments (it's your hard earned money) or get a good financial advisor to do it for you

Rule 12: Keep it simple, invest in Mutual Funds

INVESTOR PROTECTION THROUGH EDUCATION

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