From the Desk of Portfolio Manager

Turbulence scary but Temporary

8th March 2022

Several investors have worries around current global geopolitical situation created on account of Russia & Ukraine war.

We are not geopolitical experts and will resist giving any views on the War as such; *but* **we do believe we have some reasonable framework to think as an investor around such events.**

Typical reactions of Indian equity market around Geopolitical crises are captured well by below data curated by *EQ research team*.

Impact of global crises on Sensex

Event	Reaction dates		Sensex		% Change	% Change 3 months	6 months	9 months
USSR in Afghanistan	24/12/1979	03/01/1980	118.76	118.16	-0.51	9.24	2.85	13.29
Hunt silver crash	13/02/1980	27/03/1980	123.92	128.66	3.83	-4.85	5.50	15.40
US bombs Libya	15/04/1986	21/04/1986	626.05	610.33	-2.51	3.81	-5.53	-7.91
1987 stock market crash	02/10/1987	19/10/1987	457.67	461.70	0.88	0.21	-12.19	24.89
Iraq invades Kuwait	08/02/1990	23/08/1990	659.30	1,151.27	74.62	9.90	-0.12	11.55
Gulf War ultimatum	24/12/1990	16/01/1991	1,048.29	1,017.72	-2.92	25.28	38.28	73.38
Gorbachev coup	16/08/1991	19/08/1991	1,727.07	1,749.91	1.32	7.42	32.74	93.98
World Trade Centre (car bombing)	18/04/1995	20/04/1995	3,421.89	3,356.32	-1.92	1.37	6.33	-9.95
Oklahoma City bombing	19/04/1995	20/04/1995	3,384.52	3,356.32	-0.83	1.37	6.33	-9.95
Asian crisis	07/10/1997	27/09/1997	3,909.46	3,925.24	0.40	-7.44	-0.85	-19.91
US embassy bombs Africa	07/08/1998	10/08/1998	3,062.25	3,020.71	-1.36	-4.51	6.44	22.74
Russian & long-term capital crisis	18/08/1998	08/10/1998	2,867.99	2,896.14	0.98	10.69	23.25	48.69
Kargil war	03/05/1999	26/07/1999	3,378.40	4,625.40	36.91	3.41	17.24	0.69
September 11 attacks	11/09/2001	21/09/2001	3,150.40	2,600.12	-17.47	25.83	37.74	26.32
Lehman Brothers collapse	29/09/2008	21/11/2008	12,595.75	8,915.21	-29.22	1.43	57.72	68.65
GFC peak fear	09/02/2009	06/03/2009	9,583.89	8,325.82	-13.13	80.27	85.78	106.57
Flash crash	06/05/2010	21/05/2010	16,987.53	16,445.61	-3.19	12.22	20.79	11.12
Japanese tsunami	11/03/2011	16/03/2011	18,174.09	18,358.69	1.02	-0.27	-10.11	-11.69
Fears about China's economy	28/07/2015	24/08/2015	27,459.23	25,741.56	-6.26	0.49	-7.90	-1.71
Recession fears (Fed rate hikes)	04/12/2018	24/12/2018	36,134.31	35,470.15	-1.84	7.60	10.50	7.17
World closes down due to COVID-19	20/02/2020	23/03/2020	41,170.12	25,981.24	-36.89	33.68	49.51	80.75
Average of all events						**10.34**	**17.35**	**25.91**

Data points to average 6-month gains above 17% and average 9-month gains of around 26% post the initial fall on Sensex *(Average means little in terms of prediction but points to a pattern)*. As it can be observed, worst gets over in first few weeks and in medium to long term almost always they end up becoming great buying opportunities - albeit in hindsight!

Dow Jones has much longer history and the patterns are similar. Average performance of Dow Jones post crises' reaction period clearly shows strong positive returns. **In every instance, stocks dipped sharply on the fear of war and rebounded sharply as the war scare subsided.**

Impact of global crises on Dow Jones						
				% Change		
Event	Reaction dates		Change(%)	3 months	6 months	1 year
Germany defeats the French	09/05/1940	22/06/1940	-17.10	8.40	7.00	-5.20
Pearl Harbour attack	06/12/1941	10/12/1941	-6.50	-2.90	-9.60	5.40
Korean War	23/06/1950	13/07/1950	-12.00	15.30	19.20	26.30
Sputnik	03/10/1957	22/10/1957	-9.90	6.70	7.20	29.20
Cuban Missile Crisis	19/10/1962	27/10/1962	1.10	17.10	24.20	30.40
JFK assassination	21/11/1963	22/11/1963	-2.90	12.40	15.10	24.00
US bombs Cambodia	29/04/1970	26/05/1970	-14.40	20.30	20.70	43.70
Arab oil embargo	18/10/1973	05/12/1973	-17.90	10.20	7.20	-25.50
Nixon resigns	09/08/1974	29/08/1974	-15.50	-5.70	12.50	27.20
USSR in Afghanistan	24/12/1979	03/01/1980	-2.20	-4.00	6.80	21.00
Hunt silver crash	13/02/1980	27/03/1980	-15.90	16.20	25.80	30.60
US bombs Libya	15/04/1986	21/04/1986	2.60	-4.10	-1.00	25.90
1987 stock market crash	02/10/1987	19/10/1987	-34.20	11.40	15.00	24.20
Iraq invades Kuwait	08/02/1990	23/08/1990	-13.30	2.30	16.30	22.40
Gulf War ultimatum	24/12/1990	16/01/1991	-4.30	19.80	18.70	24.50
Gorbachev coup	16/08/1991	19/08/1991	-2.40	1.60	11.30	14.90
World Trade Centre (car bombing)	18/04/1995	20/04/1995	-0.30	5.10	8.50	14.20
Oklahoma City bombing	19/04/1995	20/04/1995	0.60	9.70	12.90	30.80
Asian crisis	07/10/1997	27/10/1997	-12.40	10.50	25.00	16.90
US embassy bombs Africa	07/08/1998	10/08/1998	-0.30	4.70	6.50	25.80
Russian & long-term capital crisis	18/08/1998	08/10/1998	-11.30	24.70	33.70	37.70
September 11 attacks	11/09/2001	21/09/2001	-16.00	24.40	30.00	-1.00
Lehman Brothers collapse	29/09/2008	21/11/2008	-33.00	-1.10	11.30	40.20
GFC peak fear	09/02/2009	06/03/2009	-21.70	35.60	46.00	63.00
Flash crash	06/05/2010	21/05/2010	-8.70	3.00	12.90	26.00
Japanese tsunami	11/03/2011	16/03/2011	-4.10	3.50	-0.40	14.50
Fears about China's economy	28/07/2015	24/08/2015	-15.10	15.90	7.20	20.00
Recession fears (Fed rate hikes)	04/12/2018	24/12/2018	-15.50	17.10	22.60	31.00
World closes down due to COVID-19	20/02/2020	23/03/2020	-34.80	44.00	47.00	78.00
Average of all events			**-11.60**	**11.10**	**15.80**	**24.70**

Historical patterns are extremely important tool in investors' arsenal. Many investors get swayed by headlines and their implications on macros. However, it is prudent and humbling to note that **"No One Knows about Anything" during such turbulent phase. "Turbulence is scary but temporary" is the only rational thought to have as an investor.**

Here is what legendary investor Philip Fisher wrote in his classic book Common Stocks and Uncommon Profits. It is a long passage, but we think it is very instructive for all value investors…

"…. Common stocks are usually of greatest interest to people with imagination. Our imagination is staggered by the utter horror of modern war. ***The result is that every time the international stresses of our world produce either a war scare or an actual war, common stocks reflect it. This is a psychological phenomenon which makes little sense financially****……… Any decent human being becomes appalled at the slaughter and suffering caused by the mass killings of war. In today's atomic age, there is added a deep personal fear for the safety of those closest to us and for ourselves.* ***This worry, fear, and distaste for what lies ahead can often distort any appraisal of purely economic factors****. The fears of mass destruction of property, almost confiscatory higher taxes, and government interference with business dominate what thinking we try to do on financial matters.* ***People operating in such a mental climate are inclined to***

overlook some even more fundamental economic influences*…. Nevertheless, at the conclusion of all actual fighting – regardless of whether it was World War I, World War II, or Korea – most stocks were selling at levels vastly higher than prevailed before there was any thought of war at all.* *Furthermore, at least ten times in the last twenty-two years, news has come of other international crises which gave threat of major war. In every instance, stocks dipped sharply on the fear of war and rebounded sharply as the war scare subsided……"*

Physicist Richard Feynman once said **"I can live with doubt, and uncertainty, and not knowing. I think it's much more interesting to live not knowing than to have answers which might be wrong."** …and we think to panic around such global crises has proven to be wrong most of the times for investors.

Equity Intelligence has always been inspired by two classic traditions – first of Value Investing & second that of Kerala's own ancient martial art Kalarippayattu. Bruce Lee, though not an exponent of Kalarippayattu but one of the legendary martial artists has said, "We do not analyse, we Integrate". Several situations in markets are complex and doesn't lend itself well to traditional analyses; but the classical principles allow us to integrate with sound pattern recognition.

To conclude:

- It is natural psychological reaction to fear and worry around such events.
- Historical evidence that stocks invariably bounce back sharply post first fear reactions around war is recurring pattern.
- Sound Investment action around events like these being played out between Russia & Ukraine would be **to buy on dips and not to panic sell when crises are on.**

We are very comfortable with portfolio of businesses we own. We see current decline in "Prices" as temporary and "Value" in underlying companies more enduring with passage of time.

Regards
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