



Greetings!

The best part of the Budget is that it is over

The market evidently went into the Budget with bloated expectations. This has always been a recipe for trouble. The government lacked the fiscal leeway for giveaways. The confusion that followed the tinkering exercise on taxation has left a bad taste. The market is beginning to reflect the discontent. The lack of cohesive action on reviving the economy may be explained away by taking a view that this government has used other platforms to articulate plans for the same. However, such plans have to crystallise into numbers which reflect in the Budget. Those do not look reassuring.

Once again, asset sales are about the only item having a potential for positive surprise. Even on this, the government comes across as a reluctant seller. There is the impression that asset sales are but a means for a desperate balancing of numbers. If this is not dispelled with some bold decisions, confidence may not emerge in the program. This, in turn, can affect the valuations the government may realise on its assets. Which is reflected in the ETF sales that are happening at throwaway prices with investors losing money even from there.

Elsewhere, the cyclical set up is much better both from the point of view of financial conditions and input prices. We stick to our view that a cyclical recovery will take shape as the year goes by. The recovery is not yet on solid ground and the slippery slope poses a risk. Investments need to turn, which is where the government comes in. Consumption and investment decisions are acts of confidence, as much as they are about calculations. There is this apprehension that the confidence infused by corporate tax cuts is waning. Governments in India have pressed the right reform buttons when under duress. This is where expectations are anchored.

In summary, we are looking at a year of gradual recovery. This trajectory can be extended to the next couple of years. What is the history of investor returns during periods of sluggish growth or underperforming markets?

Three takes

One: Japan

Japan, by all accounts, has been the worst performing large economy over the last three decades. It has also been a terrible stock market for much of the time. The Nikkei is still trading at 45% below its all-time high, which it reached in late 1980s. Nonetheless, it is interesting to note the following data on Japan in the last five years when market returns were modest and the economy continued to be sluggish.

No. of stocks which gave significant returns in a sluggish market (Dec 2014 to Dec 2019)*	
Nikkei 500	49%
No. of Stocks with returns greater than 500%	6
No. of Stocks with returns between 200% and 500%	33
No. of Stocks with returns between 100% and 200%	53

So, there were winners in Japan. Even if we look at data over a longer timeframe, it would be clear that there were companies that created shareholder wealth in a difficult economy. These companies obviously had something unique about them.

Two : China

China has been a highly successful economy by any standard but a horrible stock market for most periods. The Shanghai composite Index (the A-share market in mainland China) went down by 4% over the last five years. Even there, look at the data:

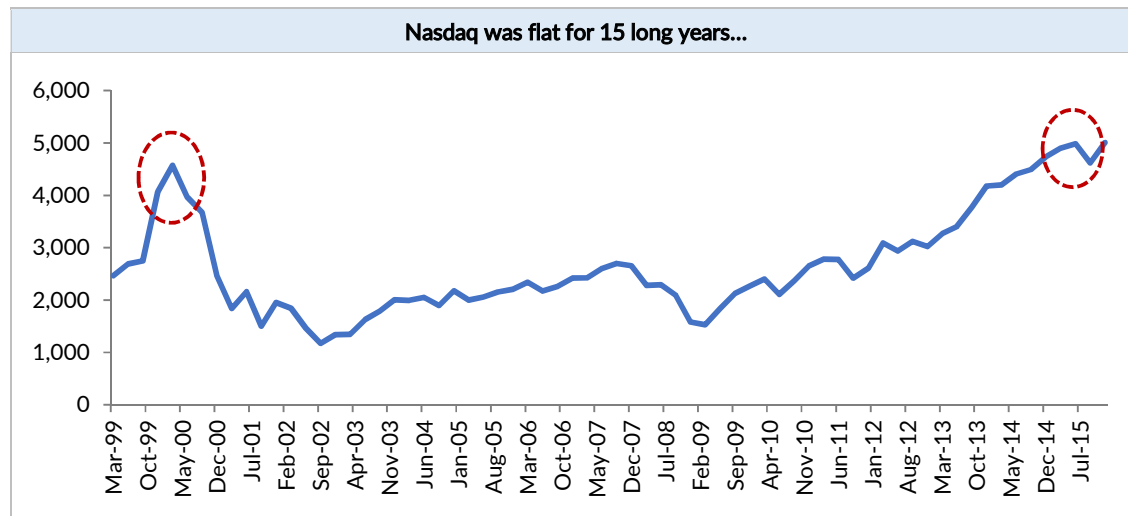
No. of stocks which gave significant returns in a poor market (Dec 2014 to Dec 2019)*	
Shanghai Composite	-4%
No. of Stocks with returns greater than 500%	2
No. of Stocks with returns between 200% and 500%	19
No. of Stocks with returns between 100% and 200%	24



So, there have been winners in China as well, a particularly difficult market, as return ratios have often been vitiated by unrelenting competition. As a result, there have been many losers in China.

Three : The Nasdaq

The Nasdaq crossed its dotcom high of early 2000 only after 15 years. However, look at the data during this period:



...while these stocks surged (Mar 2000 to Sep 2014)*

Nasdaq	-2%
No. of Stocks with returns greater than 500%	47
No. of Stocks with returns between 200% and 500%	39
No. of Stocks with returns between 100% and 200%	21

Note: *point-to-point return; ending market capitalization > \$2bn

These stocks became world leaders during Mar 2000 to Sep 2014	CAGR**
Nasdaq	-0.1%
Facebook	35.9%
Amazon	11.4%
Apple	23.3%
Google	27.5%
Netflix	43.3%

Note: **Compounded Annual growth rate

Source: Bloomberg, Spark Fund Research

This is an eye opener, as the Nasdaq has been a vibrant and huge market in a highly successful economy.

Some lessons for us

1. A high-growth economy is not always a sine qua non for shareholder returns, particularly at the level of stocks. Not to say that a bad economy helps the cause of investors.
2. A roaring bull market with all stocks rising may not be an absolute necessity for reasonable investor returns. What it takes is a bunch of good stocks.
3. The mortality rate in a weak economy is high and hence, if there are investment mistakes, they need to be cut.



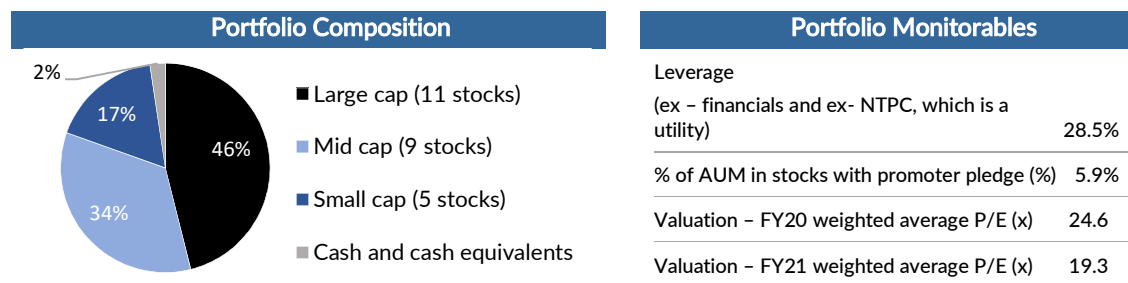
4. The level of disruption in the last decade has been so acute that holding on to investment propositions with question marks can prove a perennial drag.
5. The other trend in the last decade has been the huge concentration of value in favour of the winners. This trend is global and is in full evidence in India.
6. There are distortions that these trends have caused, most noticeably in valuations. We note that there is ongoing aggravation in these trends rather than moderation.
7. There are risks to this market positioning. Those will never be obvious until the tipping point arrives. No one knows when that will come. Risk diversification is the only possible solution.
8. Investments are more likely to yield returns if companies have sustainable business models, good balance sheets and long-term salience.

Our portfolio actions have been guided by the above. We note that the results thereof have been reasonable, not spectacular. There is a trade-off here in the short run. That said, we believe the portfolio is well positioned for the economy we are likely to be dealing with over the next couple of years.

**Warm regards,
P Krishnan (CIO) and Team Spark Fund**



Portfolio composition



Note: Represents portfolio of a typical investor onboarded in February 2019 when the strategy commenced; actual portfolios may vary depending on timing of entry into the strategy; Market cap as per SEBI guidelines

1. The portfolio composition remained largely stable during the month, with no major changes. No stocks were sold during the month.
2. The portfolios are well diversified across market cap and across companies with different business drivers and from different sectors, with the largest holding below 8%.
3. Market liquidity improved in January, particularly for mid and small cap names. This has had a beneficial impact on the liquidity of our holdings as well and we continue to monitor this on a regular basis.

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