

January 27, 2014

Whilst your individual returns are with you, I would like to share how we think about on performance on the portfolios managed by me at Jeetay.

- 1) We look at a "representative" portfolio. Most of the older portfolios usually have in the past had performance numbers clinging around the numbers of the "representative" portfolio. Newer portfolios take time to build up and usually mask true performance and may even distort it. This "representative" portfolio is that of our oldest client.
- 2) We benchmark our returns against the Sensex. We are size agnostic but usually find values in the mid-cap space. However we carry fairly large amounts of cash and so a mid-cap index may not be the right benchmark. We have chosen the Sensex to give you a sense of the "opportunity cost" of not being in the market and not as some sort of a competitor with whom we are in a quarterly rat race.
- 3) Short-term underperformance does not bother us and short-term outperformance does not excite us. What should count are long-term figures. Our idea of the long-term is very long. We will be honest – we do not have performance figures for our definition of the long-term. So we have sliced the performance figures into various shorter-term horizons, to suit your perspective of what should be a sensible investment horizon.
- 4) We usually measure the cheapness of our portfolio in relation to each security's historical valuations and not against the current market valuation i.e. we would like to have some sort of absolute cheapness and not relative cheapness.

- 5) The figures cited are before taxes and fees. This is because the taxes are paid by you and vary depending on whether you have short-term capital losses and the quantum of short term gains. The fee structure varies due to 1) different plans 2) different entry points (high watermarks). These should shrink the magnitude of outperformance, although not eliminate it.
- 6) We do not only look at returns, but at risk-adjusted returns. We do not measure risk by simple volatility, but by downside volatility, drawdowns and portfolio cheapness. On a risk-adjusted basis, our returns, even after taxes and fees, should compare well with the Sensex. Since we believe that markets are unforecastable, we usually hedge our positions by carrying fairly large amounts of cash.
- 7) We continue to use the "representative" account methodology so as to be consistent (Tables 1, 2 and 3).
- 8) We have found that the "representative" account, which has been that of our oldest account, now has a different portfolio composition from newer accounts and even some of the older accounts. It may thus in the future not properly track overall performance. We have included Table 4 in which four sets of figures are shown:
 - a) The "representative" portfolio returns.
 - b) The weighted average returns of all the discretionary portfolios managed by Mr. Chetan Parikh in the Jeetay PMS.
 - c) The weighted average returns of those portfolios with over 60% equity at any point since inception. These may be generically thought to be the "older" portfolios since "newer" portfolios take some time to build up and may not be representative of portfolio performance. They are of course included in the weighted average returns of all the portfolios.
 - d) The Sensex returns.
- 9) We will therefore be reporting "weighted average" returns along with those of the "representative" portfolio.
- 10) Should you find all these numbers too intimidating but want to focus only on a few, just look at the second and fourth columns of Table 4. That summarizes the overall performance of portfolios managed by me at Jeetay and the Sensex.

Table 1

Since Inception				
Period	Portfolio Returns (%)	Sensex Returns (%)	% in cash	
June 07, 2003 to June 07, 2004	80.80%	48.00%	Almost fully invested	Audited
July 05, 2004 to June 30, 2005	31.45%	42.10%	Around 65%	Audited
July 01, 2005 to March 31, 2006	30.32%	56.80%	Around 40%	Audited
April 01, 2006 to March 31, 2007	33.73%	15.62%	Around 20%	Audited
April 01, 2007 to March 31, 2008	7.41%	18.60%	Around 30%	Audited
April 01, 2008 to March 31, 2009	-22.26%	-37.94%	Around 35%	Audited
*April 01, 2009 to March 31, 2010	85.16%	80.50%	Around 30%	Audited
April 01, 2010 to March 31, 2011	29.09%	10.93%	Around 27%	Audited
April 01, 2011 to March 31, 2012	9.03%	-10.5%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to June 30, 2013	-1.12%	2.97%	Around 13%	Audited
July 01, 2013 to September 30, 2013	-1.06%	-0.08%	Around 15%	Audited
October 01, 2013 to December 31, 2013	12.58%	9.24%	Around 17%	Audited
Cumulative Return	811.00%	511.75%		

Table 2

Since 2008				
Period	Portfolio Returns (%)	Sensex Returns (%)	% in cash	
April 01, 2008 to March 31, 2009	-22.26%	-37.94%	Around 35%	Audited
*April 01, 2009 to March 31, 2010	85.16%	80.50%	Around 30%	Audited
April 01, 2010 to March 31, 2011	29.09%	10.93%	Around 27%	Audited
April 01, 2011 to March 31, 2012	9.03%	-10.5%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to June 30, 2013	-1.12%	2.97%	Around 13%	Audited
July 01, 2013 to September 30, 2013	-1.06%	-0.08%	Around 15%	Audited
October 01, 2013 to December 31, 2013	12.58%	9.24%	Around 17%	Audited
Cumulative Return	104.77%	35.29%		

Table 3

Since 2012				
Period	Portfolio Returns (%)	Sensex Returns (%)	% in cash	
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to June 30, 2013	-1.12%	2.97%	Around 13%	Audited
July 01, 2013 to September 2013	-1.06%	-0.08%	Around 15%	Audited

October 01, 2013 to December 01, 2013	12.58%	9.24%	Around 17%	Audited
Cumulative Return	1.07%	21.64%		

*A mistake we hope never to make again – at low levels of the market, do not wait for even lower prices. Ignore all the negatives, because they usually are already in the prices. Mark-to-market losses should not hurt, only permanent losses of capital.

Table 4

Jeetay Returns** (Portfolios managed by Mr. Chetan Parikh)

	"Representative" portfolio	Weighted average returns of all discretionary portfolios	Weighted average returns of "older" portfolios	Sensex Returns
2006-2007	33.73%	28.66%	30.11%	15.62%
2007-2008	7.41%	7.12%	8.68%	18.60%
2008-2009	-22.26%	-23.85%	-23.85%	-37.94%
2009-2010	85.16%	78.40%	79.00%	80.50%
2010-2011	29.09%	18.57%	18.40%	10.93%
2011-2012	9.03%	3.32%	3.07%	-10.50%
2012-2013	-8.23%	-2.12%	-2.77%	8.23%
April 01, 2013 to December 31, 2013	10.14%	9.8%	9.73%	12.39%

**Returns are before fees but after all other expenses

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My understanding of Graham and Dodd's "Security Analysis" led me to view "intrinsic value" as a combination of an "investment" component (value based on the past track record) and a "speculative" component (value based on factors other than the past track record). The emphasis on the "margin of safety" in investment decision making was, in my opinion, Benjamin Graham's acknowledgement of the "known unknowns" and "unknown unknowns" (and possibility also "unknown knowns" – factors an investor is aware about but does not consider important when in actuality they are). The greater the preponderance of these factors in relation to the "known knowns", the larger should be the "margin of safety".

In a period of rapid and unprecedented change, the "speculative" component becomes, in many cases, the larger part of "intrinsic value". Ignoring it is dangerous; attempting to incorporate it means making the use of the probability estimates a part and parcel of the mindset.

Attempts should be made to quantify what is not known in the mathematical form of ignorance – probability estimates. A large “speculative” component, rationally arrived at, would underscore more the vagaries of chance and less of analysis, but could still be considered “intelligent”.

The importance of a “margin of safety” and a “circle of competence” comes only when ignorance is acknowledged and confronted. Acknowledging ignorance is the hard part; Benjamin Graham, Warren Buffett and Charlie Munger have since long shown how to confront it.

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Should there be any queries, I’m always available. Please do not hesitate to contact me or members of the Jeetay team who look after the administration at the office – Divya, Rashmi or Prem!

Warm Regards,

Chetan Parikh