

Valtrust Momentum October 2023:

Superior Performance of Momentum hinges on adapting to changing Market regimes.

In 2019, England won the World Cup. While India had topped the table in the league stage, New Zealand knocked us out in the Semi's. This time around, England has been the second team to be eliminated from having any chance of getting into the knockout stage after losing 6 out of their 7 matches.

In between these two world cups, they honed up a strategy called Bazzball in Tests which despite risky seemed as if it could work out for them. Come World Cup and their strategy seems to be in tatters. So bad has been their performance that even Associate countries which came into the World cup based on qualification plays have been higher on the points table.

So, what does this have to do with the world of investing, you may be wondering?

One of the easiest data points that is available with respect to funds is the historical performance. Ratings of Mutual Funds have a very large weight to such historical performance. The question though, how consistent are the performance of funds.

Data shows that most of top ranked funds struggle to stay in top quartile if they do not keep moving between sectors/themes which go in and out of favor. These days many funds reduce the risk by building their portfolios to match the Index. This ensures that while they may not get the high's, they don't get the low's either. But this leads them to best matching the index..

While Momentum is often described as an anomaly, the key reason for the superior performance comes down to the overweighting of sectors that are trending higher. This also means that the Active Share of an Active Momentum fund is very high.

The success of a Momentum strategy isn't tied to a particular segment of the market. Our allocation swings from high allocation to one segment or sector to low or even no allocation to a sector once the trend ends. China plus One was a driving factor for Chemical companies and Momentum rode the wave. But the trend has since turned to the extent that in their recent earnings call, Clean Science & Technology said that the chemical market was now a buyer's market due to overproduction in China.

Our current allocation is on the higher side to Industrials. The underlying reason could be because of capital expenditures being incurred by both firms which are investing to expand and the government which has budgeted large expenditures. Sometime in the future, even this shall come to pass but by which time, our portfolios would have moved to the next promising sector or theme.

Going back to the cricket analogy, the team that wins is the one not just with the best batsman but the best bowlers and the best strategy. Team India seems to be ticking all the right boxes. The last three

World Cups have been won by the country that hosted the World Cup and one hopes this Momentum continues.