Monthly Newsletter

VALTRUST MOMENTUM

Investing Looks Easy Until It Isn't

The big news that took the market by surprise is Jane Street. While it was well known even before that retail lost money in the F&O segment, the ability of a single entity to corner such a large percentage of profits leaves one stupefied.

Unlike the equity market where the cost of one making a profit is not having another make a loss, Derivatives is always a Zero sum game. Negative if you account for the statutory charges that are to be paid by every participant. Investing on the other hand is more of a positive sum game. As long as the country is growing, the overall market returns tend to be positive.

Yet, not all investments are created equal. A very large section of the market doesn't even break even in the long term. The higher the fall from their peaks, the greater the possibility of the stock never being able to break-even.

What is interesting is that as the stock price goes down, rather than lower amount of interest, one sees a much higher amount of interest, especially if the stock that went down goes down with a large amount of news items associated with it. This can be verified by looking at the rise of the number of shareholders.

Hendrik Bessembinder, a professor of finance at Arizona State University, studied the roughly 28,600 public companies that have been listed in the U.S. from 1926 to 2024. Just 2 percent of the companies produced 90 percent of the aggregate wealth creation.

Investing is incredibly hard even though on the outside it looks incredibly easy. The latter is what draws a large percentage of participants, majority of whom find the going tough if not impossible in the long run. While funds go through phases of outperformance and underperformance, most investors are barely able to recover after a period of underperformance.

In many ways, this is similar to stocks. Stories are written about survivors while those who did not are long forgotten.

Most investors aren't professionals who understand that the markets swing between highs and lows all the time. What this means is that one year could be a good year while the very next could be a bad. The best investor is one who stays put regardless of the volatility seen in the market.

That though is harder to practise for in bad times, we extrapolate the worst case scenarios. This means that rather than add or at worst stay invested, many investors exit at the worst possible time. When Trump first came out with his new Tariffs plan, the market fell. But since then markets have climbed even though the Damocles sword of a higher tariff hasn't been shelved.

The advantage of following a systematic model based portfolio such as Valtrust Momentum is that it doesn't sway based on news or opinions. Eliminating our own behavior from decision making adds value that is not easily quantifiable and yet showcases in the long term.

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