



Monthly Newsletter

VALTRUST MOMENTUM



Staying the Course through Momentum Drawdowns

The philosophy of Valtrust Momentum is to buy stocks that are making all time highs. This is intuitively difficult. What is worse is that this strategy also suffers from a hit ratio of just 50%. But we let the winners run. This discipline has delivered consistently with outperformance over the medium to long term.

Like any strategy, even Momentum can underperform in the short run. Currently we are in the midst of a drawdown. Exactly one year back, more than 80% of all stocks in our Universe were showing positive momentum. Today, that stands at less than 30%. While we continue to rotate into stronger stocks, the overall trend has been drifting down even though it's not evident at the Index level.

Global uncertainty has played a role. In Europe, higher defense spending is pushing up deficits and interest rates. The US is already slowing, even before the full impact of tariffs. Gold, the traditional safe-haven, is surging. We believe this is best described as a "time correction" phase—where markets consolidate without sharp declines. Historically, such phases can last a year or more, and absent strong positive triggers, this cycle may follow a similar pattern.

Markets rarely move in straight lines. At the start of 2003, 10-year Nifty returns were just 3.65% CAGR. By 2013 - despite the Global Financial Crisis—they had surged to 18.67%. Today, the 10-year return is ~12%, right around the long-term average. Even on a 3-year rolling basis, returns hover near 12%, within the historic band of 0-22%. This suggests markets are neither cheap nor expensive. If earnings continue to grow as they have in recent years, valuations will ease naturally and set the stage for the next uptrend.

As Lenin said, "There are decades where nothing happens; and there are weeks where decades happen." Market history reminds us that patience through drawdowns is often rewarded. Or as Martin Zweig put it, "One of the frustrating things for people who miss the first rally in a bull market is that they wait for the big correction, and it never comes."

Momentum thrives on such inflection points. Staying disciplined today is what positions us best for tomorrow's opportunities.