Interview Article with Mr. E.A. Sundaram
(Executive Director, O3 Capital Bengaluru)


On 13th October 2022 Mr. E.A. Sundaram Executive Director, O3 Capital Bengaluru delivered an insightful technical session on the topic "A road to investment success" at SDMIMD. Post session the Dimensions and Finnacle committee had the honour to interview Mr. E.A. Sundaram to further capture insights from his experience rich illustrious career.

The interaction was as follows:

Finnacle Team: "In the early 90s and 20s saw a boom in technology. Internet companies in the US as well as in Indian market saw a significant rise. Recently we saw when new age start-ups came there was a boom in the stock market, even though the valuations are high people tend to invest. Is it lack of financial literacy from investors side or is it just the noise?

Mr. E.A. Sundaram: "I told you in the session, it is not a monolithic entity. You are talking about the index valuation. I am talking about individual shares. 2021 index was very high, many technology shares were high, bitcoin was high but ITC was cheap. Even today Bajaj finance in my opinion is very high but HDFC is not. The market consists of thousands of companies, some of them are very expensive some of them are not expensive. So, our job as an investor at least my style of investment is to choose companies, make a list of the ones that are not expensive and amongst those choose the strong business. If something deserves to be inexpensive you should not buy it but something is highly competitive company and is inexpensive that is…there is where you should focus your attention to. So, the index evaluation is not relevant."

Finnacle Team: "Ignorance of certain stocks even though they are cheap seems to take place so, do you think it is due to lack of literacy?"

Mr. E.A. Sundaram: "I don't think its lack of financial literacy its lack of interest. Most people want to buy shares when they are already on their way out. When share hasn't moved for 5 years nobody wants to buy it. Because it has not moved there not buying it, they want to buy it on its way up. Whereas my style of investing is to buy when nobody is interested but buy a good company when nobody is interested. Why? There is an economic reason for it. When it is ignored, when it is forgotten it tends to be cheap. When you buy a share when it's cheap you have greater chance in making money on it. So, the entire attention is to buy when it is not exuberantly expensive but at the same time don't dilute the quality of what you buy. There are always good quality companies that are ignored. Always.

Finnacle Team: "Coming to derivatives not being used, why is it that natural hedging should be given more preference?"

Mr. E.A. Sundaram: "I do not use derivatives. I am not knowledgeable in it. If I'm not knowledgeable I should not commit somebody's else's money on things I don't understand. There are other ways to hedge."

Finnacle Team: "You mentioned about Diverse implication of hedging"

Mr. E.A. Sundaram: Diverse implication of the hedge. Staying away from the stock market is a hedge. If you don't like something don't buy it, even if the whole world is buying it don't buy it. It's okay.

Finnacle Team: "To sum up contrarian strategy is what that you were trying to explain"
Mr. E.A. Sundaram: "Yes, contrarian you can call it anything I prefer to call it common sense investing. By the way if you guys are interested, I can recommend a wonderful book called contrarian investment strategies by David Dreman. It's worth your while."

Dimensions Team: "What would be the point of action after committing your money in a particular stock and with adequate homework, over a period of time the consequences of the choice emerge, if my choices were right or wrong, at what point would be your reaction?"

Mr. E.A. Sundaram: "when you buy ten shares, it is inevitable that two or three will not work out the way you want it to. My target is to be right on seven out of ten times occasions. That is my target. If I am right seven out of ten occasions client has a decent result. When I am right on eight occasions the client has a very good result. I don't think ten on ten is possible for anybody. I am not aware of anybody who is right all ten on ten occasions, it's not possible. How long will I wait that is your other question. Generally, I wait for three years, if in three years if the company hasn't improved its fundamentals significantly and the price also hasn't moved then I will look for something better but in three years if the company's fundamentals have significantly improved and the price still hasn't moved then I'll hold on"

Dimensions Team: "would it be the same if you see a sudden drop due to an external cause like let's say changing environment within the company?"

Mr. E.A. Sundaram: "if the assumption with which the share was bought in the first place, if that assumption is not valid anymore then you should sell ruthlessly"

Finnacle Team: "When we compare US and Indian stock market India being a young market in terms of experience and investing magnitude, is it fair to say we see a lot of noise in Indian stock market?"
Mr. E.A. Sundaram: "There is noise in Indian stock market no doubt but I refuse to accept that there is no noise in US stock market. I refuse to accept that all US investors are highly rational and logical in there

thinking. Everywhere it is driven the greed, everywhere it is driven the fear. You have heard of ARK investment fund? You have seen the kind of fall it has seen. You have seen the kind of junk they bought. I think greed and fear are there everywhere, human emotions are universal, I don't think The US qualifies to be called more logical market, It's a bigger market."

Finnacle Team: "Because of this noise can we say it fetches excess returns?"

Mr. E.A. Sundaram: "Get this idea out of your head, there are dozens of ways in which you successfully invest in the stock market. Any method followed diligently will roughly give the same kind of return as any other method. Value investing or growth investing or investing through charts or investing through derivatives or investing through qualitative methods, if you do it diligently the return will converge over a period of time. In this year this style may do better, that year the other style may do better, in third year some other style may do better but if you compare over a reasonably long time period everybody converges. It's like saying this: you have south Indian meal for breakfast, you have Punjabi food for dinner and you have Italian food for lunch. Which is better?"

Finnacle and Dimensions Team: "We can't determine"

Mr. E.A. Sundaram: "The goal is to satisfy your hunger and need for taste. The purpose of all investing is to satisfy the need for capital appreciation. Which root you follow is up to you depending upon your temperament and capabilities.

Dimensions Team: "Do you change your strategy if a client really pushes for higher returns or do you take such clients?"

Mr. E.A. Sundaram: "No. I can't completely control the client but I can control my behaviour. That way I am pretty thick skinned. The client will get exactly what we say he will get.

Dimensions Team: "Because you know that he might not understand the whole scenario."

Mr. E.A. Sundaram: "No, it's not a very difficult thing to understand but peer pressure will sometime force client to ask some questions. There are times when we will trail then that time, he will ask questions. My job is to logically explain to logically explain that I am giving you exactly the stuff which I said I will give. Right now, its unpopular and it's okay.

Dimensions Team: "When you have so much information how do you filter? Some react to newspaper; some react to actual data."

Mr. E.A. Sundaram: "Have you read this book by Nicholas Taleb, there is this beautiful quote. You should remember this. "They think that intelligence is about noticing things are relevant; in a complex world, intelligence consists in ignoring things that are irrelevant". There is information, there is too much information but information is not knowledge. Your skill as an investor is to filter information that is irrelevant."

Dimensions Team: "Do you have a sort of dogma that you follow throughout?"

Mr. E.A. Sundaram: "Experience evolves, I have also made stupid mistakes in the past, I have done some silly things. All this gyaan I gave you didn't come in one day; it came as a result of hard knocks in life. There are things that you should realise as an investor. These things I know, these things I do not know so your investment program should be structure around things you know. There are many things you will not know, ever but don't be afraid of saying I don't know. If you acknowledge you do not know there is a possibility of knowing. The most dangerous thing is a combination of ignorance and arrogance, that's a deadly combination."

Dimensions Team: "In the transition process of not knowing to knowing do you wait till you have completely acquired the knowledge or implement your learnings along the way?"

Mr. E.A. Sundaram: "You'll never know completely anything, in your own subject even if you study twenty-four hours a day will you know it fully? You will not know it fully. It's like hitting a moving target, investment is about hitting a moving target. You don't aim at the target; you will aim at the place where you think the target will be when bullet reaches there. So, there are things which in your control, what you buy is in your control. Things you don't understand thing has a weak balance sheet, thing is not a comparative company then don't buy it it's okay. Even if the stock prices are roaring up you don't have to buy it. Bitcoin went up from a few dollars to sixty thousand dollars, I didn't understand anything about bitcoin, I don't have a single bitcoin, I am okay. Why are people rushing after bitcoins? Even though they don't understand anything. It's because it gives them some brownie points, they can talk in a cocktail party about how they invested green money in bitcoin. Remember this investment is like your competitive examination difficult question and easy question carry the same marks. If it's a complicated industry like genomics or artificial intelligence, it's not necessary that you will make more money there. Simple mundane businesses you can make a lot of money. Is there anything complicated about soap or toothpaste? How much money has been made by these companies. Do you understand AI really?"

Dimensions Team: "I think I do but not completely."

Mr. E.A. Sundaram: "Okay good which is much more than what I am able to understand. Do you understand genomics?"

Dimensions Team: "No sir."

Mr. E.A. Sundaram: "if it's genomics, you can attempt to understand that business, if you do understand go and invest, fine but if you don't understand then you should be honest enough to say I don't understand and it's not necessary, you can make the same amount of money inn cement industry. Simple mundane businesses if you buy at the right price."

Mr. E.A. Sundaram: "Always. Of course, if you don't understand it initially you make an honest attempt to understand but if you still don't understand then leave it.

Mr. E.A. Sundaram: “In the long run stock market in many countries will give roughly the same return as the nominal GDP growth of the country but it will not happen every year. There has been data to show that India’s nominal GDP and India’s stock exchange index given approximately the same return but there are years in which the market may boom but economy may slink and there are years where it reverses and in the long run what even cash flow the company will generate the stock price will reflect that over a period of time, these things should be the basic for your decisions.”