The risk control measures focus on approaching the investment process from different perspectives – 'fundamental, technical, quantitative and behavioral' – a process named 'rational investing'. These perspectives complement each other and shed light on different aspects of the investment and valuation process.

'Fundamental analysis' is the bedrock of the Portfolio Manager's analytical process. The process is valuation driven – and hence contemplates investments only when a numerical range of values can be assigned within which the Portfolio Manager believes the 'estimated business value' of the stock resides. The framework hinges on the experience and belief of the Portfolio Manager that 'one size' does not fit all. Hence, the use of one analytical methodology to value all stocks is fraught with danger.

The Portfolio Manager will follow a 'two bucket' approach' to investment and valuation – with a view to placing all 'investable' stocks in either one or the other buckets. If a stock cannot be placed in either one or the other category, the Portfolio Manager would simply pass up the opportunity of investing in that stock at that point in time.

The first of 'the two buckets' embraces stocks that have 'moats' which protect their earnings; and are therefore stocks of companies which exercise 'earnings power'. The Portfolio Manager's analytical process therefore commences with a historical view on the profitability and market shares of companies. Companies which exhibit consistent track records of high profitability and stable market shares are shortlisted for the next phase of analysis. This is the qualitative assessment of the nature of the 'moat' or competitive advantage which preserves the profitability of the company from being eroded away through competitive pressures in the business environment. The Portfolio Manager will only contemplate investment in those companies whose moats it can identify, and are strong enough to preserve competitive threats. These companies ('moat companies') are valued through a discounted cash flow analysis. Investments shall be only made in those companies with a margin of safety, i.e whose market price is at or below the lower end of the Portfolio Manager's expected business value range.

The 'second bucket' would embrace stocks which the Portfolio Manager considers as being cheap on an asset basis. The Portfolio Manager will have two different categories of stocks in this bucket.

The first is commodity producers. These stocks will be valued on the basis of the replacement cost of assets. The Portfolio Manager believes that commodity producers in general earn cost of capital in the long run, and therefore tend to gravitate to their ‘replacement cost valuation’ over time. Again, while investing in these stocks, the Portfolio Manager will attempt to create a margin of safety by buying at significant discounts to the replacement cost of assets. In addition, since it is impossible prior to determine cycle lengths, the Portfolio Manager only contemplates investments in those companies that have low leverage and hence the capacity to withstand significant downturns both in terms of intensity and duration.

The Portfolio Manager believes that the second category of asset cheap stocks are stocks which are cheap on some pre-defined measures that use balance sheet data; for example where the ‘market capitalization of the company is less than net current assets of the company less all outstanding debt’. These are likely to be stocks of companies that have fallen upon bad times or of stocks where low liquidity has inhibited the price discovery process.

While valuation of stocks in the ‘first bucket is driven off the income statement, in the second bucket, valuation is driven off the balance sheet’. After completing the valuation exercise, investments would however be only made when the market price offers a significant discount to the values obtained. This would be true of stocks in either of the two buckets.

Since the Portfolio Manager’s return objective incorporates an element of time, ‘technical analysis’ is used with the limited objective of determining whether the stock is facing ‘headwinds’ or is aligned with ‘tailwinds’ in terms of collective market participant action at that point in time. It would be the Portfolio Manager’s attempt to align the Portfolio to tail winds to reduce the duration of time between its purchase and the point in time when the market bridges the gap between its perception of value and the market price. The Portfolio Manager does not propose to use technical analysis for stock selection – except as stated above.

The Portfolio Manager will use ‘quantitative tools’ such as statistical analysis in its study of asset classes; to determine which asset class is cheap vis-à-vis its historical price data. It will also use this type of analysis to determine inflection points in commodity prices which have deviated far above or below what their historical data suggest.

The Portfolio Manager’s ‘behavioral analysis’ would make an attempt to recognize the human element, and play of emotions in the investment business. The objective would be to avoid falling prey to emotional decision making by choosing to be process driven, and have every investment supported by an Investment Thesis which would spell out at the time of investment, the likely price at which exit will be contemplated.