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Can't judge a co's intrinsic value? Don't invest in stocks

Vikas Gupta, Fund Manager and EVP, Arthveda Fund Management, believes a rules-based value investing approach works the best for investors.

Q: What is your philosophy towards investment?

A: I follow a value-oriented investment philosophy which was originally developed by Ben Graham and which has evolved with John Templeton, Martin Whitman, Warren Buffett, David Dreman, Peter Lynch and Seth Klarman among several others. It is a highly sophisticated investment philosophy today.

Q: How disciplined are you when it comes to investments?

I follow an investment process that is highly structured and rules-based with hardly any role for subjective judgments. The rules themselves are based on principles derived from a value investing philosophy.

Q: What kind of an investor would you describe yourself as: conservative, balanced or aggressive?

A: An aggressive-conservative investor. What that means is be aggressive as far as the goal to beat the markets is concerned. However, at the same time, be conservative by following a very risk-averse investment philosophy with a huge margin of safety.

Q: Which is your most preferred instrument for investment?

A: Listed equities.

Q: Could you share some of your learnings in investing?

A: We think all rational investors should follow a value-oriented philosophy. This means that one should assess the intrinsic value of businesses and from there on work out the intrinsic value of the securities. If these securities are available significantly below their intrinsic value (>30% discount) then one should purchase them and once they are close to or above their intrinsic value then one should sell them.

One should always buy a diversified portfolio of securities. One should never buy on margin or on borrowed money. If one doesn't know what "intrinsic value" is and what financial ratios are then one should not invest in equities directly.

Q: What is your advice to the general public as far as investing is concerned?

A: Learn to read financial statements and understand how a company is valued (not just the PE ratio but also discounted cash flow and more sophisticated valuation methods). Learn how to do judge the competitive position of a company in its industry.

Learn to assess balance sheet strength. Easier still, stick to companies with debt/equity of less than 30%, ideally, stick to zero-debt companies. A company without any debt cannot go bankrupt easily.

Always invest in a diversified portfolio of at least 10, ideally 20, companies. Try not to have all those companies in one-two sectors. Never borrow to invest in equities. Never trade on margins or when your investment horizon is less than three years.

Start out with small sums of money which you are willing to lose and track how you are doing and then increase the amount as you gain confidence.