WHATSINIT 4me

THE art of picking stocks wisely

LIKE everything beautiful, picking stocks is an art which requires learning and seasoning. But like every art, picking stocks have tricks, too. Focusing on stocks for their core holdings is one of the best way to channel your investents.

Is it big?
To begin with, limit your investments only to the top 500 companies by market capitalisation (market cap) or sales and at least Rs 1,000 crore in market cap and sales. This will weed out very small companies – companies with volatile business models.

Borrowing habits: Regulate the investments by adding a filter for debt-free companies. If a company doesn't borrow, it cannot go bankrupt. This reduces the risk levels in your portfolio to very low. One can be a little bit lenient and look for companies with debt to equity ratio of 0.1 or less. Low debt companies usually are the ones whose business model inherently doesn't require debt or which are able to pay off debt through highly efficient use of capital, i.e., they have high profitability. So, with this criterion, you are automatically tilting your portfolio towards companies with high-quality business models.

Balance the outflow: Restrict your portfolio to companies that have a price-earnings (P-E) ratio of less than 21, i.e., earnings yield of about 5 per cent or more. Now you have a pool of companies from which you can choose five to 10, making sure you select at least three to five different sectors.

Keep moving: Deploy only about 25 per cent your total equity corpus at a time using this process. Do this every quarter and eventually, in about a year's time, you will have a portfolio of 20 to 40 companies in five to 10 different sectors. Investing throughout the year gives you chances to take advantage of market ups and downs. From next year onwards, one can sell the set of companies that one has held for more than one year and reinvest into the new set of five to 10 companies which pass these above mentioned filters.

Vikas Gupta,
EVP, traded markets and investment research, ArthVeda Fund Management

mail to:
mymoney@mydigitalfc.com