BURMAN
CAPITAL MANAGEMENT

An investment lesson from Tennis

Jul - 2024

Author: Abhas Gupta,
Chief Investment Officer,
Burman Capital Management

2nd Floor | Express Building
9 – 10, Bahadur Shah Zafar Marg
New Delhi – 110002 | India

Published on: 05-Aug-2024
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Summary

The previous quarter was an eventful one for Indian investors. General elections 2024 were held in India between April to June 2024 to elect the 18th Lok Sabha. While the incumbent ruling alliance NDA led by the BJP prevailed over rivals, it fell significantly short of its 400-seat target, winning 292 seats.

This was followed by NDA's Budget which was released on Jul 23rd, 2024. Touted as a blueprint for Modi 3.0, it created more chatter on short-term and long-term capital gains tax increases rather than it's prudent focus on fixing core issues prevailing in the economy today, especially around employment and rural stress.

However, this newsletter is not about the elections or the budget, enough has been written on those subjects. Instead, we thought of focusing on an interesting statistic mentioned by Roger Federer at his commencement address delivered at Dartmouth. We dive deeper into that statistic and draw parallels with a core principle of investing. Hope you enjoy reading!

Portfolio performance update

Since inception i.e., Mar 23, 2021, our portfolio has delivered annualized returns of 36.5% vs. S&P BSE 500 TRI returns of 21.5%, delivering outperformance of 1,500 bps annualized. Over the last three years, our returns have been 35.0% vs 19.9% for our benchmark, an outperformance of more than 1,500 bps.

During the Apr-Jun 2024 quarter our portfolio delivered returns of 15.7% vs 11.7% for our benchmark. Driven by improving macro and micro fundamentals, strong domestic liquidity flow and stronger sentiment, the bull market which started in Mar-23 has continued unabated. As a result, valuations across the board have become expensive with a few pockets reaching exuberance levels. While we remain excited about the long-term India opportunity, we believe that investors should moderate return expectations in the short-term.

Performance Snapshot

	1 Month	3 Month	6 Month	1 Year	2 Year	3 Year	Since Inception
Burman Capital Management	10.3	15.7	3.5	23.9	36.1	35.0	36.5
S&P BSE 500 TRI	7.1	11.7	16.7	38.3	30.9	19.9	21.5

Monthly performance (Absolute returns %)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	NA	NA	0.67	6.5	5.7	(0.5)	7.5	4.1	4.3	4.0	7.3	9.6
2022	0.2	(7.0)	11.7	(2.5)	(5.7)	(2.8)	9.3	8.7	4.5	4.1	(3.5)	0.1
2023	(1.3)	1.0	(0.5)	9.0	7.1	3.6	1.7	6.8	0.8	-	8.7	0.6
2024	1.4	(3.5)	(8.6)	10.5	(5.1)	10.3						

Note: All returns are net of fees and expenses (TWRR). Since inception, two-year and three-year returns are annualized; other time period returns are absolute. Benchmark changed effective from 1st April 2023 to S&P BSE 500 TRI from S&P BSE Small Cap Index, according to SEBI circular dated December 16, 2022.

Roger Federer's Dartmouth commencement address

Federer "aced" his first-ever commencement address when he visited Hanover, New Hampshire last month. His speech was full of insightful life and career lessons, he termed these "tennis lessons" which included (1.) Effortless is a myth, (2.) It is just a point and (3.) Life is bigger than the court. Would encourage those who have not watched it yet to click here.

During the speech, he mentioned an insightful statistic (excerpt from his speech below)

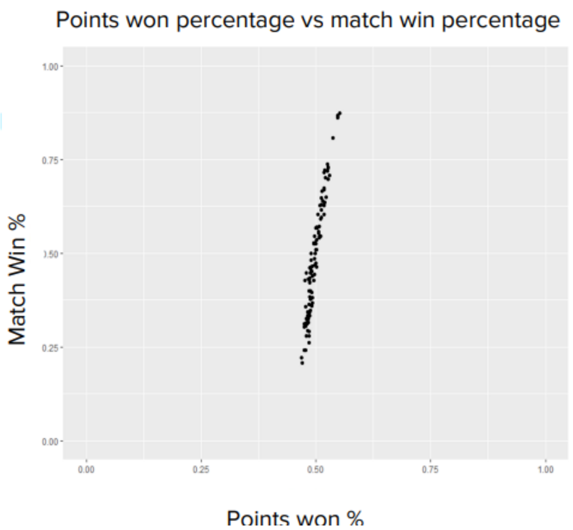
"In the 1,526 singles matches I played in my career, I won almost 80% of all matches. Now I have a question for you, what percentage of points do you think I won in those matches?"

"Only 54%"

"Even top-ranked tennis players win barely half the points they play, when you lose every second point on an average you learn not to dwell on every shot."

A logical question to ask is, what percentage of points do other tennis professionals players win?

Results from a study published in Wharton's Sports Analytics Student Research Journal are shown below.



There is a very narrow difference in the percentage of points won by the best players vs the rest showing little separation in terms of skill sets between these players. However, the narrow difference leads to a wide difference in matches won %. For instance, in the chart on the left, players with around 46% points won % had match won percentage of about 20% whereas players with points won percentage of more than 52% had match won percentage of more than 75%

So what explains such a wide difference in outcomes? The study notes that the key is player performance/point won % in specific situations – (1.) First Serve return percentage and (2.) Clutch rating i.e., Break point saved + Break points converted percentage. Most top performing players are better at returning first serves and winning crucial break points.

An investing parallel

Howard Marks in his Sep 2023 memo "Fewer Losers, or More Winners?" wrote

"Dave (head of the General Mills pension fund) told me that, in his 14 years in the job, the fund's equity return had never ranked above the 27th percentile of the pension fund universe or below the 47th percentile. And where did those solidly second-quartile annual returns place the fund for the 14 years overall?"

"Fourth percentile!"

If we live in a world where tennis legends lose half the points they play and some top-performing fund managers are not top-quartile in any year, perhaps we should re-think the commonly understood definition of success!

Interestingly, the Wharton study talks about "first serve return" percentage and not "first serve aces" percentage or similar and also talks about "break points saved." Success is popularly measured by how much one wins, but it is also equally about how much one does not lose. Howard Marks makes this point in his memo referred to above saying that if one avoids losers, the winners will take care of themselves in the long-run. Warren Buffett says there are two rules of investing – (1.) Do not lose money and (2.) Do not forget Rule #1.

In a raging bull market like the one we see ourselves in now, it is easy to forget that investing is not only about making big money but also about not losing big. Shelby Cullom Davis said *that "You make most of your money in a bear market, you just don't realize it at the time.,"* we believe the opposite of this statement is also true *"You lose most of your money investing in a raging bull market, you just don't know that yet."*

It is easy to make mistakes in bull markets that are supported by strong fundamentals because it is easy to misinterpret momentum/short-term uptick in fundamentals with long-term competitive strength of franchises. In such markets, investors end up paying peak multiples on peak margins, the reversal of which leads to massive capital losses.

Our approach to portfolio construction

We are excited about investing opportunities available in India today. The country is undergoing massive economic transition in terms of physical and digital infrastructure build, financialization, and manufacturing growth, among many others and we believe that many Indian companies will deliver exceptional long-term investment outcomes for their shareholders. While the long-term story is intact, there is widespread optimism in the markets today. Companies with fickle business models showing strong momentum are being bid up to the sky. Our approach is to focus on companies that have strong business models and can deliver sustained performance over the long-term. We are also using this opportunity to exit out of companies where fundamentals have worsened but stocks continue to remain expensive.

If you would like to know more about our investing approach, please feel free to write to us at agupta@burmancapital.com.

About Burman Capital Management

Burman Capital Management is a part of Burman Family Holdings, the strategic investment platform of the Burman Family, which over the last twenty years has invested over US $500 million in various businesses primarily in India and have partnered and joint ventured with many of the leading Fortune 100 companies from around the world. The Burman family are the control shareholders of the Dabur Group. Dabur was founded in 1884 by Dr. S.K. Burman and is today one of the largest Indian Fast Moving Consumer Good Company in India with over US$1 billion in revenue and a market capitalization of over US$14 billion.

At Burman Capital Management, we are long-term investors with deep passion for identifying and investing in exceptional businesses early. We are fundamentals-driven bottom-up investors and run concentrated portfolios focusing on small to mid-size companies. We are a SEBI-registered Portfolio Manager with registration number INP100007091.

Disclaimer

For direct On-boarding, please write to us on: clientservicing@burmancapital.com.