

# Global Perspectives



Ajay Bagga  
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## True Story : The Bet the Index Won :

- January 2008 :Buffett: \$1 million bet against Protégé Partners
- The bet? Can Protégé pick 5 top hedge funds who will collectively beat the S&P 500 index over a 10-year period?
- 2018: S&P 500 Index won
- Index CAGR: 7.1% pa
- Hedge Funds CAGR: 2.25 % pa
- 125% total return vs 36% total return!



**Simplicity  
Wins.**

# Simplicity is Hard Work

- Jeff Bezos to WB:  
"Your investment thesis is so simple.  
You're one of the richest guys in the world and it's so simple.  
Why doesn't everyone just copy you?"
- Warren Buffett : **"Because nobody wants to Get Rich Slowly."**



**My wealth has come from a combination of living in America, some lucky genes, and Compound interest.**



**Warren Buffett**

$$(1.00)^{365} = 1.00$$

$$(1.01)^{365} = 37.7$$

Doing nothing at all

Vs.

Small consistent effort

## True Story : Theodore Johnson, UPS

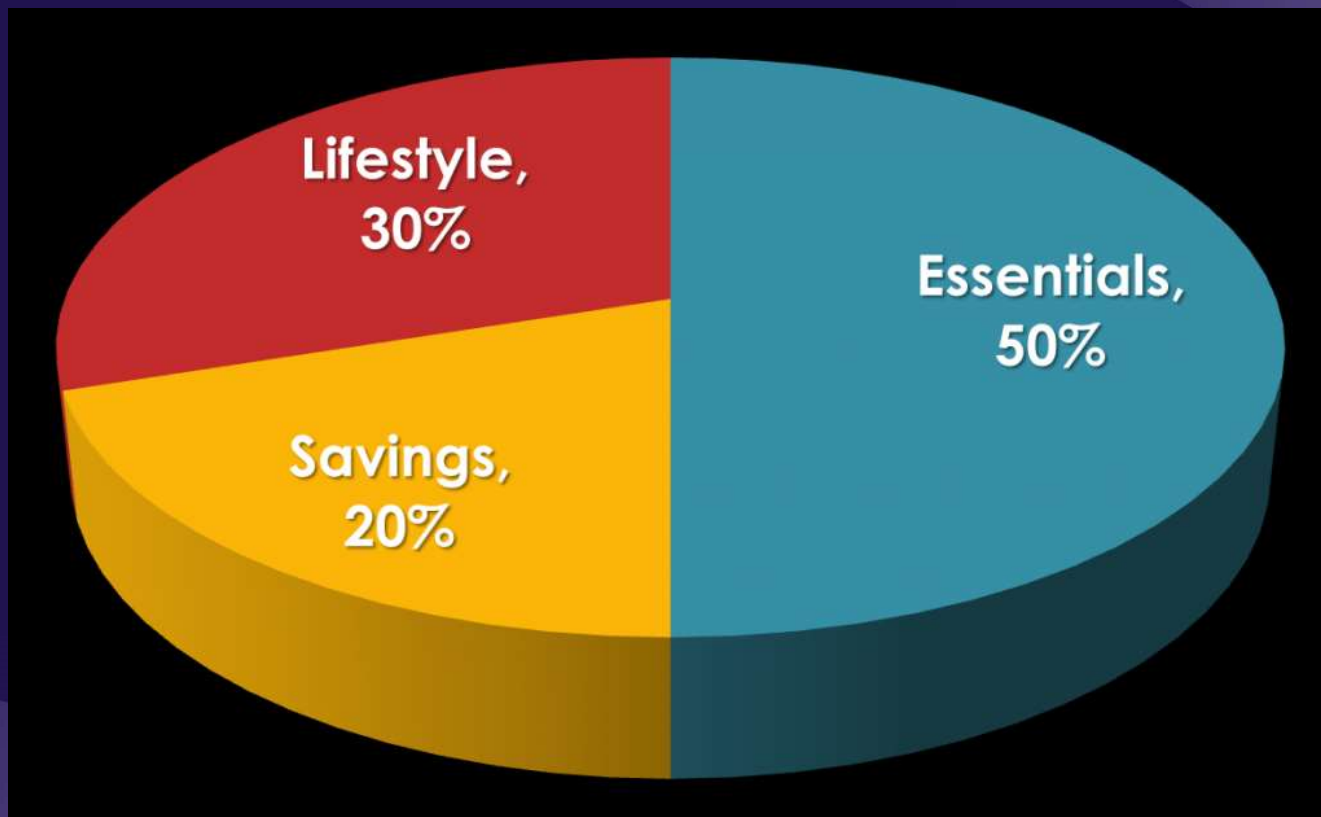
- Theodore Johnson, joined United Parcel Service in 1924.
- **He never made more than \$14,000 a year, magic formula: investing 20% of every paycheck , every bonus into company stock.**
- He had a number in his head, a percentage of income he believed he needed to save for his family
- **Theodore Johnson held UPS stock worth \$70 million by age 90 years .**



## True Story : Grace of Chicago and Richard :

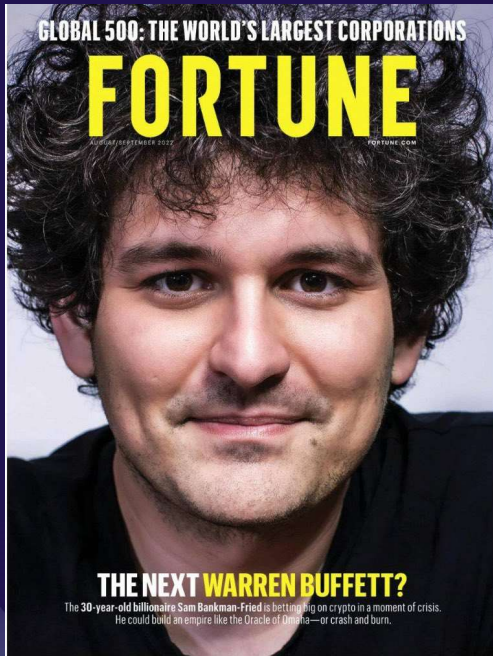
- **Grace Grahner:** b.1909 Chicago, orphan, started working during the depths of the Great Depression.
- Worked as a secretary entire life. Never married, no kids , lived in a one room house
- Grace Grahner died in 2010, at 100 years old. Left 7 million US dollars to charity
- Grace's secret : she saved what little she could, she put it in the stock market, she let it compound for 80 years and that was it, end of story.
  
- **Richard:** born wealthy, Univ of Chicago, Harvard MBA ,Vice Chairman of one of the largest investment banks .
- Was one of the most powerful people in global finance.
- The day after Grace Grahner died, Richard filed for personal bankruptcy.
- He told the bankruptcy judge that the financial crisis completely wiped him out, he had no more assets, no more income and he was fighting to save foreclosure on his house

## 50/30/20 Rule :



## True Story : Mrs X and Mr X

- Both invested under the guidance of Coffee Can Investor Rob Kirby
- The wife diligently bought & sold as per Kirby's advice
- The husband bought USD 5000 of each buy from Kirby and held forever.
- On the husband's death, Kirby found:
  - Many stocks worth USD 2000 and lesser
  - Some stocks worth USD 100,000 ( 20x baggers )
  - One stock worth USD 800,000( 160x bagger), which was more than the entire portfolio of the wife
  - It was USD 5000 invested in Haloid which became Xerox eventually



### The King of SPACs Wants You to Know He's the Next Warren Buffett

- Berkshire-like vehicle would be home to 'all things Chamath'
- Rules out bid for governor but won't 'cut and run' like Musk



HEALTHCARE

### 30 Under 30: Hedge Fund Gadfly Turns Biotech Entrepreneur



# How We Are Fooled

**The goal of the nonprofessional should not be to pick winners—neither he nor his “helpers” can do that—but should rather be to own a cross section of businesses that in aggregate are bound to do well.**

**A low-cost S&P 500 index fund will achieve this goal.**

**—WARREN BUFFETT, 2013 letter to shareholders**

**When you look at the results on an after-fee, after-tax basis, over reasonably long periods of time, there's almost no chance that you end up beating the index fund.**

**—DAVID SWENSEN, author of *Unconventional Success*,  
manager of  
Yale University's \$23.9 bn endowment**

## Greed and Fear :





# How Investing and Cocaine Look the Same to the Brain:

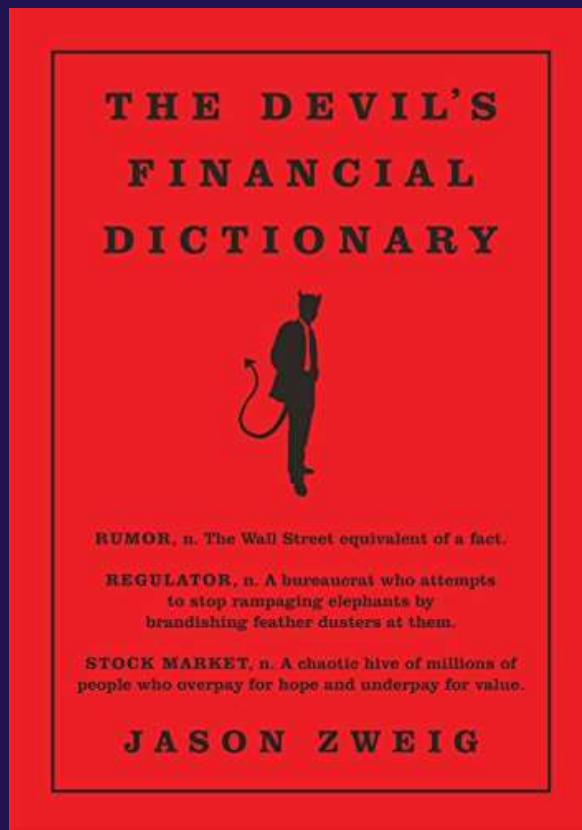
## KEY TAKEAWAYS

- The thrill of seeing an investment soar and the response to using a substance such as cocaine are similar to your brain, research suggests.
- According to a Harvard study, activations in four regions of the brain in response to investing success were comparable to the response observed by people with substance abuse disorder using cocaine.
- In both cases, the initial high can lead to bad decisions, such as a person choosing to use more cocaine or an investor being more reckless.
- The study adds to the understanding of the psychological and behavioral aspects of investing, such as how irrational biases can impact results.



“I put two children through Harvard by trading options. Unfortunately, they were my broker’s children.”

Jason Zweig



***Instead of concentrating on the central issue of creating sensible long-term asset-allocation targets, investors too frequently focus on the unproductive diversions of security selection and market timing.***

**—David Swensen**

# Invert Always Invert

- **Simon Ramo : Tennis two games: Professionals and the rest .Professionals win points , amateurs lose them.**
- **The “Loser’s Game” : Chess : the amateur player blunders himself to defeat**
- **An amateurs’ main focus should be on avoiding stupidity. Playing conservatively and outlasting competition.**
- **The problem? Most of us are amateurs but do not play like one .**

**"If my job was to pick a group of 10 stocks in the Dow Jones average that would outperform the average itself, I would probably not start by trying to pick the 10 best. Instead, I would try to pick the 10 or 15 worst performers and take them out of the sample, and work with the residual. It's an inversion process...Start out with failure, and then engineer its removal."**



**Warren Buffett**

# Berkshire Hathaway 2022 SH Letter

- CAGR 1965-2022 : 19.8% (vs 9.9% for S&P500)
- Total R. : 3,787,464% (vs 24,708% ,153x )
- In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so
- Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years

## Berkshire Hathaway 2022 SH Letter

- **Coca-Cola: 1994: \$1.3 bn: Dividend grown from \$75 mn to \$704 mn in 2022**
- **\$1.3 bn now worth \$ 25 bn**
  
- **Amex: 1995: \$1.3 bn: Dividend grown from \$41 mn to \$ 302 mn in 2022**
- **\$1.3 bn of Amex now worth \$ 22 bn**

# Berkshire Hathaway 2022 SH Letter

- **The lesson for investors: The weeds wither away in significance as the flowers bloom. Over time, it takes just a few winners to work wonders. And, yes, it helps to start early and live into your 90s as well.**
- **More than \$4.8 bn of Berkshire Hathaway's \$6 bn-plus in dividend income this year will be collected from just six holdings.**

2021 **BERKSHIRE  
HATHAWAY**  
ANNUAL SHAREHOLDERS  
MEETING

**BUFFETT:  
'I HAVE NO  
COMPUNCTION  
ABOUT  
OWNING CHEVRON'**  
yahoo!finance



# Bank of America



## Warren Buffett's Investment in Occidental Petroleum (OXY)



**BERKSHIRE  
HATHAWAY INC.**





## Prashant Jain Actual Performance:

Profit / Loss (INR)	No. of Companies		Net profit / Loss (INR cr)
	Profit	Loss	
More than 5000 cr	4	0	28,070
2000 – 5000 cr	5	0	12,608
1000 – 2000 cr	7	1	7,378
750 – 1000 cr	7	0	5,928
500 – 750 cr	9	0	5,652
250 – 500 cr	23	2	7,503
100 – 250 cr	52	9	6,861
0 – 100 cr	245	101	2,929
<b>Total</b>	<b>352</b>	<b>113</b>	<b>76,929</b>
<b>Dividends received</b>			<b>9,612</b>
			<b>86, 541</b>

## **Prashant Jain Actual Performance:**

- **2003-2022 : Rs 87,000 crore of gains**
- **465 investments**
- **55 gave Rs 74,000 crores of gains**
- **12% gave 85% gains**

# Prashant Jain Actual Performance:

- 2003-2022 : Rs 87,000 crore of gains
- 465 investments
- Any portfolio will have its share of big winners, winners, losers and big losers.
- “In my case roughly 1/4 were losers, 1/100 were big losers, 1/20 were big winners and the rest were winners. However, it is interesting to note that gains on one large winner were more than the total losses of all loss making investments.”

# Global Outlook



## Sixth Era starting post Covid

- 1. The first era of globalization (1860-1914)
- 2. The Great Wars and the Depression (1914-1945)
- 3. Bretton Woods and the return to a gold-based monetary system (1945-1971)
- 4. The start of fiat money and the high-inflation era of the 1970s (1971-1980)
- 5. The second era of globalization (1980-2020)
- 6. The Age of Disorder (2020-????)

## 8 Megatrends in this Age of Disorder:

- 1. Deteriorating US/China relations
- 2. Reshoring, Friend Shoring, Near Shoring, Deglobalization
- 3. De Dollarization
- 4. Huge Financialization
- 5. Inequality worsening before a reversal takes place.
- 6. Intergenerational divide widening before Millennials and younger voters start having the numbers to win elections and reverse decades of policy.
- 7. Climate actions creating disorder to the current world order.
- 8. Technology revolution with astonishing equity valuations reflecting serious disruption. Revolution or Bubble? WFH becomes more permanent, causing major changes to societies and economies. Big cities were huge winners in the previous era, and this could now reverse.



## Impact of Inflation on Stock Market returns :

<b>S&amp;P 500: 1926-2020</b>	<b>% of the Time</b>	<b>Annualized Returns</b>	<b>Volatility</b>
Inflation Above 3%	41%	6.6%	15.9%
Inflation Below 3%	59%	12.9%	20.5%

Data: Returns 2.0

## Rate Hikes and Markets

- Financial cracks and economic damages from the fastest rate hiking cycle since the 1980s are emerging. What matters: the pricing of these and market risk sentiment.
- 286 rate hike in 2022, leading to stock valuations being rerated lower
- Second order impact of Earnings Recession coming

## Rethinking bonds

- We see higher yields, especially in short-term government bonds, as a gift to investors after years of being starved of income.

## **Living with Inflation, Balancing Growth vs Price Controls**

- **Central banks are likely to stop their rapid rate hikes when the economic and financial damage becomes clearer, with inflation likely settling above 2% policy targets.**

# Tightening Credit Conditions

- **Bank lending surveys show credit conditions had started to tighten in the U.S. and the euro area since late 2022 as rates climbed.**
- **We think the latest episode of banking stress is poised to exacerbate this tightening.**

# Earnings Recession will lead to Economic Recession:

- As the U.S. economy appears to be edging closer to a recession, current earnings estimates remain too high. While the prospect of lower interest rates has supported equity markets so far this year, volatility may pick up as earnings estimates are revised down.

# Underweight DM Equities:

- On top of relying on rate cuts , which we don't see coming, corporate earnings are running above trends and aren't pricing in the damage from higher rates.
- Cost pressures amid high inflation are likely to crimp profit margins.

## **Key Market Catalysts :**

- **China reopening and recovery favours EM stocks and bonds**
- **Bank of Japan policy reversal coming**
- **Fed pause and pivot crucial catalysts for markets**
- **Soft or Hard Landing**
- **Markets are too complacent on rate cuts timing and magnitude**
- **US market recovery in 2023 has pushed market bottom formation further away**



# Reserve Currency Challenges Coming Up

- **Worries over the Fed's creditability in fighting inflation, concerns over the U.S. federal budget deficit, the "weaponization of finance"—these factors could weigh on the dollar's attractiveness in the near term.**
- **Over the long term, the world is glacially moving towards a multi-reserve currency world, with the dollar first among lesser equals.**

# Volatile Markets

- **Geopolitics, banking stress, the U.S. 2024 election, the rise in global protectionism—all of these seismic forces will weigh on market sentiment well into next year.**



**Thank You**

