

# Going against the tide

With the exception of Tata Contra, contra funds have done poorly in India

In the dictionary, a contrarian is one whose beliefs are often opposite to what most people believe. In investing, contrarian investing has long been a well-recognised approach. The basic idea behind contrarian investing is that the wisdom of crowds is not always right. Because most investors copy each other, markets can easily enhance mispricing to an extent that investors who recognise this can systematically gain from it. The mass of investors—including institutional investors—can get pessimistic about an investment to an extent that a serious value proposition can build up. In a certain sense, all value investing is a form of contrarian investing, the basic idea being to recognise and exploit value that is invisible to conventional wisdom.

World over, there are funds whose mandate is to

exploit this mispricing. In India too there are seven funds that are supposed to explicitly follow a contra philosophy. All these have 'contra' in their names. Besides these seven, there are two more—Fidelity India Special Situations and Birla Sun Life Special Situations whose objectives are somewhat contra-like. Even more broadly, there are 20 funds that identify themselves as 'opportunity' funds, which is also a contra-ish idea.

However, limiting ourselves to the explicitly contra funds, we see that none of them have done all that well for their investors. According to our normal classification system, six of these fall in the 'Equity: Multi Cap' category while UTI Contra falls in the 'Equity: Large & Mid Cap' space. Within the multi-cap category, the ranks are firmly towards the low side, with the exception of Tata Contra.

## Understanding contra

A fund manager's view on what it really means

### On Growth v/s Contrarian investing

Growth investing very often doesn't pay, even if underlying business growth is strong, as very often investors end up paying too much for growth. Buying growth companies early when they are under-owned, and therefore under-appreciated, buying them when they go through lean patches, or buying them when they are hit by company-specific bad news which is temporary in nature enabling an investor to buy them cheap, is what would qualify as contrarian investing.

In that sense, I think it's a mistaken belief that contra investing is necessarily buying what are perceived to be classical "value" stocks.

### On confusion regarding contrarian investing

To some extent, contra investing is confused with buying those stocks that are either obscure or ones that no one would ever want to buy. When one sees a contra fund portfolio, and sees blue chip companies with good business fundamentals in them, they seem out of place in a contra fund. The way we approach investments in Tata Contra Fund is that we principally want to buy the best and most fundamentally sound businesses only. We have a list of companies we principally like, and we wait for those companies to either fall on some company-specific bad news like an earnings miss, or some temporary setback in business, to buy into those companies. Also, if a



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company is in a sector that underperforms for an extended period of time, which makes the relative investment case stronger for that company, then also it would be an ideal acquisition candidate in the portfolio.

Once one has patiently waited and sown the seeds for future growth, one would want to reap the full benefit when that seeds flower. One would want to ride one's winners. How would one make big money if one keeps clipping stocks after marginal trading gains? At all points of time, one would have a portfolio where one is reaping the rewards of what was bought earlier and riding that winner, and buying into some current underperformers and companies in a temporary spot of bother.

So our contra fund would not contain all bombed out companies in trouble, but a mix of companies that are doing well but were bought when they had their share of problems earlier, and companies which are going through tough times currently. So, essentially, we are willing to take time risk on our companies but avoid taking price risk.

### On his successful contra bets in past

In the past year or so, what has worked for the fund can be put in different buckets.

First, there are stocks that were bought when there was a lot of bad news surrounding them. They were bought on correction - stocks like HDFC Bank, Exide and Sun TV.

The second category comprises pure value or cheaper stocks, like GSFC and Gujarat State Petronet.

The third category includes stocks which, when the fund bought them, were stable, strong growth stocks, but had relatively less institutional ownership, and were therefore under-appreciated in that sense - stocks like Cadilla, Nestle, Cairn India, Crisil and 3M India.

The fund was accumulating a stock like Nestle in the first half of 2007 when FMCG stocks were underperforming and were out of favour. Infrastructure stocks were then in vogue. The fund has kept the stock as a core holding since then while partly trimming its position in it. Then we have a stock like HDFC Bank that was bought through 2008 into the bottom of the market in March 2009, when in the

### The opportunity hunters

Scheme	Rating	Category	Return (%)	
			1-year	3-year
<b>CONTRA FUNDS</b>				
Religare Contra	★★★★	Multi Cap	6.97	13.96
ING Contra	★★★	Multi Cap	0.85	6.62
<b>Tata Contra</b>	<b>★★★</b>	<b>Multi Cap</b>	<b>16.71</b>	<b>9.79</b>
UTI Contra	★★★	Large & Mid Cap	0.15	7.01
Kotak Contra	★★	Multi Cap	1.29	6.95
Magnum Contra	★★	Multi Cap	1.07	5.30
L&T Contra	★	Multi Cap	5.95	-2.70
<b>OPPORTUNITIES FUNDS</b>				
Mirae Asset India Opp Reg	★★★★★	Large & Mid Cap	14.49	15.85
UTI Opp	★★★★★	Large & Mid Cap	15.80	14.70
DSPBR Opp	★★★★★	Large & Mid Cap	10.03	9.83
Reliance Equity Opp	★★★★	Multi Cap	14.85	16.73
Kotak Opp	★★★	Multi Cap	5.97	4.10
L&T Opp	★★★	Multi Cap	2.67	2.75
DWS Investment Opp Reg	★★	Multi Cap	0.17	0.52
Franklin India Opp	★★	Large & Mid Cap	8.05	0.66
ING Domestic Opp	★★	Multi Cap	5.69	4.48
Tata Equity Opp	★★	Multi Cap	2.30	1.88
BNP Paribas Opp	★	Large & Mid Cap	6.70	-7.90
SPSC Unique Opp	★	Equity: Multi Cap	7.22	-2.25
<b>SPECIAL SITUATION FUNDS</b>				
Fidelity India Spl Situations	★★★	Equity: Multi Cap	9.59	9.24
Birla Sun Life Spl Situations	★★	Equity: Multi Cap	1.73	1.44

Data as on May 31, 2011

financial crisis that enveloped the world then, financial stocks were under pressure. That is also one stock that the fund has held since then, though here too it has booked profits from time to time.

### On current available contrarian themes in the Indian market

With interest rates on the rise, interest-rate sensitive stocks have underperformed in the last few months. This is one space the fund is looking at for purchases. We believe that auto and banking sectors have secular growth prospects, though there may be headwinds in the short-term. As and when inflationary pressures cool off and interest rates start to soften, some of these interest-rate sensitive stocks could come back into favour. Apart from this, we are always on the lookout for bad news on companies. To that extent it's a very spur of the moment and opportunistic approach to investments, even though the template of the businesses we principally like is always ready with us. ■