

SNR INVESTMENT ADVISERS PRIVATE LIMITED

Quarterly Letter –October 2024

Dear Investor Partners,

We are in festival time in India, and this is the time we look forward to celebrating. While there has been small correction in last month or so, Maa Laxmi has been generous in recent years on investor community and Market has been giving all the reasons to celebrate.

However, it seems everyone has not been making money. SEBI recently came up with its report on F&O participation by retail investors, stating that more than 91% of retail participants incurred losses in F&O transactions. An estimated 11.3 million unique individual traders collectively lost ₹1.81 Lakh Crores during FY22-FY24. That's a massive number. Now, the point is, if the public is making so many losses, why is the ecosystem allowing this to happen? Many stakeholders make money when F&O transactions hit the roof, which has been happening for the last 3-4 years. Brokerage platforms make crazy money from these transactions. While we do not intend to pinpoint anyone on this, we feel there is a need for education so that people understand the real purpose of the F&O transaction. Is it investment, hedging, or speculation? And if the purpose of the transaction is to speculate, why one should put hard-earned money speculating and eventually losing to 9% of smart people?

SEBI has been proactive in working on this and recently came out with various measures to reduce options trading. While these steps are welcome, more is needed to curb this speculative instinct in the public at large.

Also, in this whole F&O addiction, investors tend to forget that some real businesses are working and some real people are working hard to make the business successful.

Markets and Outlook

We are in result season. While June 2024 continued the upward journey on revenue and margins, the September 2024 quarter is expected to cool down this momentum. Recent results from various industries, particularly the primary financial sector, have not been encouraging. This has resulted in some significant corrections in some of the stocks.

While Nifty is currently valued at 22-23x PE, mid- and small-cap, especially micro-cap, seems overvalued. In recent times, the valuation of SME/Microcaps has cooled down; however, as a category, it is still in the high zone, and we expect this to cool further.

Taxation for Investors and Buyback

Taxation has always been a point of contention between the government and investors. There was a time when Long-Term Capital Gains and Dividends were tax-free. But then, gradually, both have been made taxable over the last few years. While Long-Term capital gain tax continues to be one of the lowest as compared to various other countries, Dividends are now taxed at the normal slab rate of investors, which is highest in many cases, which effectively means one should reduce dividend yield by almost 1/3 to calculated real return.

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One of the tools companies use to pay back cash to shareholders is Buyback, which was earlier taxed at a lower rate. However, from this budget, the same has been taxed at the highest rate now. This has come as a surprise and will reduce the return to investors as a whole. Earlier, corporates paid tax on buybacks, and any proceeds to shareholders used to be tax-free. Buyback now has been made taxable in the hands of shareholders, similar to the long-term capital gain tax. Additionally, the tax needs to be paid on the entire buyback proceeds instead of only the gain. The acquisition cost can be carried forward as a capital loss to be set off in the next years. The new taxation system looks strange, especially when one is paying a 12.5% long-term capital gain tax.

Let's see how this plays out in the coming year.

Life and Health:

We feel happy that we added this new section from last quarter with the intention to share few things relating to health and spirituality as we feel wealth creation is lovely when we are healthy and wise, so here we go:

"You'll probably surprise yourself with what you can accomplish—if you're focused on one thing.

You'll probably frustrate yourself with what you fail to accomplish—if you're doing 5 or 7 or 10 things.

Nobody performs well when stretched in a half dozen directions."

Performance:

While we do not consider a *period of less than five years as adequate* for measuring equity investment returns, for the sake of transparency, below are the in general return generated by our advised portfolio Alpha 30 vs Benchmark (in Absolute %):

This information is for our clients. Please contact us if you need any information on this.

- Returns may vary from client to client based on the portfolio recommended, timings and/ or different weightages.

Mutual fund schemes advised by us have given mixed returns in comparison to benchmarks based on the category and scheme.

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Client Engagement:

We have provided online platform access to all the clients where you can log in and see your portfolios. Our team will be happy to assist you if you need assistance accessing your investment portfolios.

A timeless advice – People with regular investment plans through SIPs should continue investing. And it's always a good idea to have some cash to capitalize on opportunities whenever the same comes up.

If you have any queries (about your portfolio, our firm, or investing in general), or would like to invest with us, feel free to contact us at the coordinates below. We would love to talk.

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Thanks & Regards,

Manoj Sharma & Jitender Kumar

30th October 2024

“The big money is not in the buying or selling, but in the waiting.”

-Charlie Munger

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“Past performance shown above is nowhere to be considered as any assurance or expectations of future returns. We do not guarantee any positive returns/ gains/losses in future from any of our recommendations or advise. Clients are advised to do basic diligence before investing.”

“Investments in the securities market are subject to market risks. Read all the related documents carefully before investing.”