Congruence Advisers

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Dealing with the Fear of Missing Out (FOMO) – Flash Note

FOMO is a unique beast. It tests the resolve and patience of every investor and every investment philosophy out there.

I am not immune to the effects of FOMO; I have dealt with the beast before in 2014 and 2017. In hindsight, not too well. And I am not in the mood to repeat any of my past mistakes.

Here are the challenges that I deal with today

- I was close to finishing research on a small cap stock, in the meanwhile the stock kept hitting the 5% upper circuit filter almost daily. Within 2 months this stock is up 100%
- A good chunk of the stocks in the portfolio plan are now trading higher than the recommended price range. And the portfolio is not a limited set of 15 names, mind you
- Deploying incremental money is becoming tougher each day for those who like to be prudent with valuation

You are not alone in feeling that you are missing out on potential gains. **It is well known that first-time investors make the most of a broader market bull run because experienced investors see both risks and opportunities while the naive investor sees only opportunities.**

This is the equivalent of someone pacing oneself to run a 5 Km race while those running an 800m race are going past you every now and then. The problem with the market is that all races are run on the same track at the same time, most investors do not have clarity on which race they are running in the first place. **In such a situation you need to trust your training and pacing rather than getting carried away by some bloke running at 2x of your pace.**

I have set the expectation to every subscriber of mine that the objective of the portfolio is to do well across market cycles and to beat the S&P BSE 500 by 4-5% p.a. over the medium term. My investment style is Growth at Reasonable Price (GARP). **If my investment philosophy were to change based on market conditions, it would mean I do not have an investment philosophy in the first place.** And this is what happens to an overwhelming majority of the investors during a bull run.

One of the common mistakes in a bull run is to price an average business as a good business and pay a price much higher than warranted. This never ends well, many short-term investors become long term investors in such stocks.

The most reliable way of making money in the market is to BUY FAIR and SELL HIGH. However, the game slowly morphs into that of BUY HIGH and SELL HIGHER, the irony is that everyone believes this is possible even in the face of 20-year data that says otherwise.

From here one of the two things can happen -

1. The economy/business does very well and it turns out that the market was right in bidding prices higher
2. The run eventually fizzles out at some point and a time/price correction follows, as the market expectation on the economy/business growth aren't met

If (1) were to materialize, we wouldn't have missed out on too much if we are already participating. Do remember that we aren't sitting out of the market. If earnings come in as expected and India goes into a multiyear secular bull run, we should still be able to buy 14-15 businesses at reasonable prices. Do remember that as earnings improve, valuation multiples automatically rationalize and some of the price concerns we have today will get addressed.

However, if (2) materializes, we will be guilty of putting in a lot of our money at elevated valuations. The next 12-18 months would then be subpar on the return profile.

Irrespective of which situation materializes, the portfolio returns over a 3-5 year rolling period is unlikely to be drastically different. I would back my ability to keep finding new stories that can get the job done without going down the quality curve.

What should Investors do now?

The same as you have done so far. Continue to buy those businesses that are trading within the range indicated, even if it is just some businesses that you can buy.

I guess this is a boring answer and I do sound like a broken record, but this is what works. Staying the course, not screwing up and trusting the process has resulted in good outcomes for me over the past 10 years.

Unless the structure of the market drastically changes, I do not see why this should not work going forward too.
