

Book: Stock Market Wisdom

Author: Mr. T.S. Anantharaman, Former Chairman, CSB Bank.

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**Reviewed by: Mr. Shaleen Mittal, Manager (Analytics),
Accenture Solutions Pvt. Ltd.**

Stock markets have been a source of awe and curiosity for many in India. The success of investors and returns in the markets have highlighted the potential of the markets to create long term wealth, yet many in India remain skeptical about markets due to ignorance and lack of knowledge. The author has demonstrated his wealth of experience in the financial markets in trying to dispel the common misconceptions about stock investment and shared the toolkit with examples which can encourage new investors to enter the markets to generate wealth and motivate existing investors to augment their knowledge and enhance their risk adjusted returns.

The book consists of two parts first focusing on the investing wisdom and second providing basic guidance on stock analysis both fundamental and technical.

Chapter 1 clarifies the stock markets as drivers of the economy which allocate capital efficiently and are regulated, accessible, liquid and wealth generating avenues and should not be equated with Casinos and lotteries. Chapter 2 explains the evolution of the stock market in India with regulatory developments, opening of up of economy, technology improvements etc. which shaped the markets to their current state. Chapter 3 delves on the irrational behavior of the investors owing to the natural emotions of greed and panic in human beings which leads to bubbles and collapses and urges the investors to control these urges, set reasonable goals and learn from past experiences.

Chapter 4 guides the investors to build a portfolio depending upon the risk profile and suggests diversified portfolio for risk averse whereas those having high risk appetite, knowledge and expertise can reap bigger profits by concentrating the investment in fewer scrips.

Chapter 5 advises investors to cut down on losses for declining stock if the inherent reasons for loss are not reversible whereas the author has suggested cost averaging

and buying more such stock if decline is caused by exceptional/reversible factors. In Chapter 6, author recommends the buy and hold as a long term strategy but also suggests to observe the adaptability of the stock to perform in age of digital disruption and enhanced volatility.

Chapter 7 provides guidance on use of "Price to Earning ratio" (PE ratio) for stock selection and suggests that the low PE stocks can be bought from value perspective but the high PE stocks having higher growth can also lead to high returns and hence PE ratio should be used in conjunction with other factors to select stocks.

In Chapter 8, author suggests that while it is safer to invest in large companies, prudent inclusion of right small and mid-cap companies in the diversified portfolio can yield to multibagger returns. In Chapter 9, author warns not to invest in fallen companies just because they are available at low prices but do research on the company's resilience and invest when there is risk appetite, free capital and patience to wait till the resilient stock bounces back.

This book's chapter 10 highlights the impact of short term news on stock prices. Long term investors should not be swayed by price volatility caused by breaking news but rather focus on learning from right sources/people and capitalize on such learnings. The author explains in Chapter 11 that companies with high pricing power are a good bet for the investors even though they cause pain to the consumers. However, pricing power is dynamic and should be re-evaluated periodically due to change in competitive landscape and regulatory framework.

Chapter 12 brings attention to the fact that the life expectancy of companies has been significantly reduced in the recent years and sustainability of even blue chips has limits. The buy, hold and forget strategy of the past needs to be reconciled with the changing realities of the current times for success.

In Chapter 13, the author discusses the dividends as means to return shareholder wealth when a company cannot invest the earnings more profitably in growth opportunities than a shareholder would. However, the companies giving steady/rising dividends while retaining sufficient profit for growth are also perceived as better managed and investor friendly as compared to peers.

The author explains in Chapter 14, the impact of bonus shares & share split on both the company and investors which do not create wealth but increase stock liquidity and perception of the company. Chapter 15 delves into share buybacks used as a tool to return surplus cash to shareholders while maintaining share prices at higher levels and helping management ward off takeover threats by corporate raiders. Chapter 16 details the types & relevance of mutual funds as preferred mechanisms of wealth creation for unsophisticated investors with a caveat that the investor should select the right fund matching his/ her risk profile.

Chapter 17 & 18 explain the essence of value investing and growth investing highlighting their difference in approach to assess the company's potential and that both approaches work not in opposition but complement each other. In Chapter 19, author shares pearls of wisdom from iconic investor Mr. Warren Buffett around long investment horizon, investing in business you understand and buying at fair price using margin of safety and avoiding herd mentality.

In Chapter 20, Mr. Anantharaman highlights the difference between trading and investing and their independent benefits but cautions against mixing the two approaches while dealing with stocks. Chapter 21 gives practical advices for investment planning, asset allocation based on age, market timing, rational behavior, benefits of starting early, awareness about risks and taxes, Government policies, useful investment ratios and tools, while also highlighting common behavioral pitfalls in investing. Chapter 22 deals with identification of multibaggers with examples tips and historic case studies of multibaggers in Large cap, Mid cap and Small cap companies. In Chapter 23 and 24, author explains the basics of both fundamental and technical analysis as well as key ratios and charts. Mr Anantharaman also provides guidance on their use clearly differentiating the time horizon of investment as the key factor for applying either fundamental or technical analysis.

Overall, the book is a must read for stock market enthusiasts as well as novice investors and lays a clear theoretical foundation complementing it with practical insights for investing and benefiting from the Indian stock markets.