2017 Letter
MY FINANCIAL PLANNER
SCO-1, Chabhra Complex
Mahesh Nagar, Ambala Cantt.

SECOND ANNUAL LETTER TO INVESTORS

9 August 2017

Dear Investor,

With a vision to provide financial literacy & financial planning in order to build life long relationship with our clients, I started my journey as a Financial Planner two years ago. This journey has been great because of your support and trust in MFP brand. And I would like to share my thought process & learning experience with you all.

MFP Value Chain:

1. The Infant Learner:

> "The best thing a human being can do is to help another human being know more."
> **-Charlie Munger**

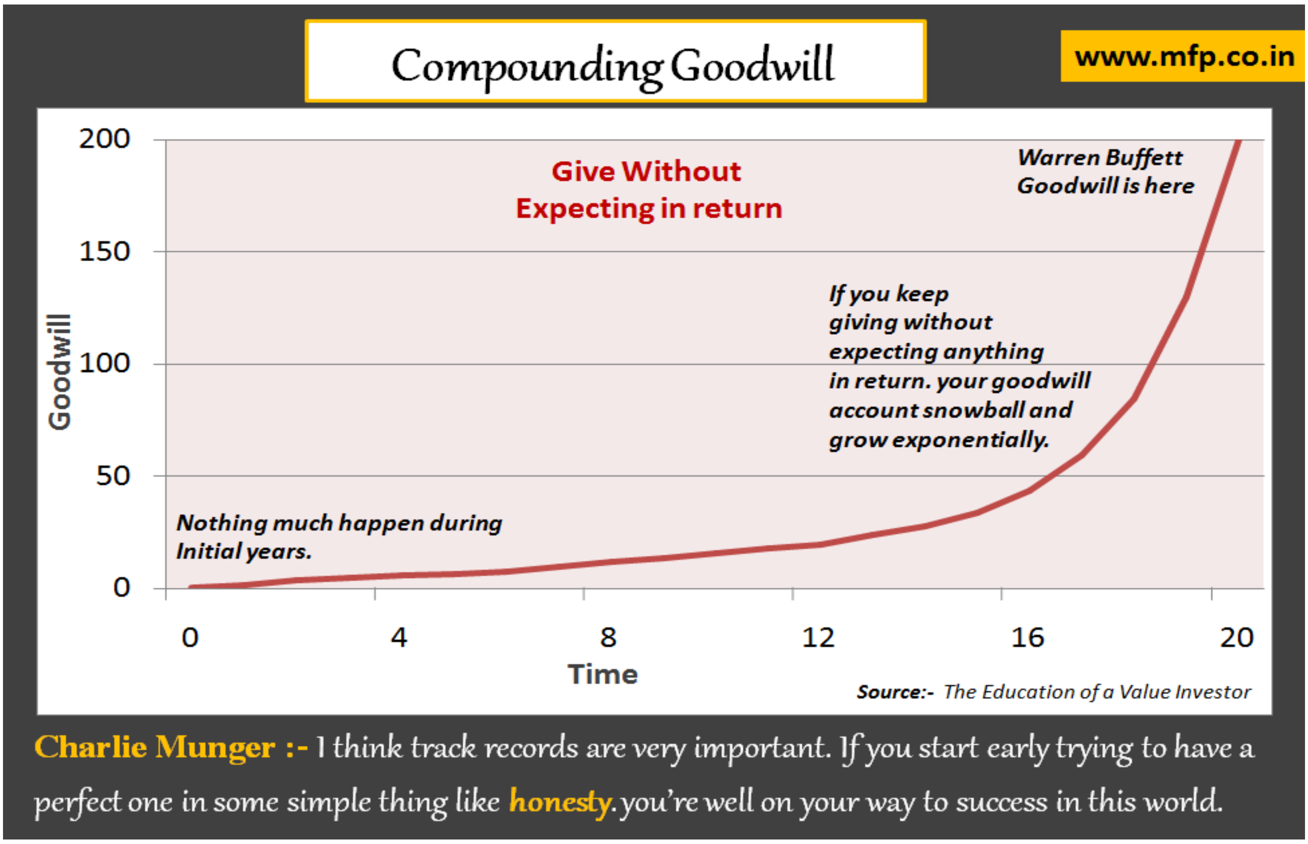
The Infant Learner as the name of the blog describes, provides a platform for the learners to know about the entrepreneurship, business, investment, behavioural finance and much more... I have segregated this in four different segments: Research Reports, My Open opinion, Book notes and Weekly Newsletter. Under weekly newsletter, I share the stuff which I read during the week. I started sharing such posts from 19 Feb 2016 and I'm glad that I got good response from everyone .Till date, a total of 78 issues have been published.

My experience with this is similar to Guy Spier's (A Renowned Value Investor) experience of writing 'thank you notes' to his customer which he discussed in his book "The Education of a Value Investor."

He describes it as....

"At first my letter-writing experiment was quite calculated, since I did it with an explicit desire to improve my business. I had a clear expectation of what the results would be. But it started to feel really good, and I became addicted to the positive emotions that this activity stirred in me. As I looked for more opportunities to thank people, I found that I truly did become more thankful. And the more I expressed goodwill, the more I began to feel it. There was something magical about this process of getting outside myself and focusing on other people.

In sending out this cascade of letters, I began to open up to people in a way that I never had before, and I started to see everyone around me as someone I can learn from. As I now understand, this habit of writing letters is an incredibly effective way of compounding goodwill and relationships instead of merely compounding money. Einstein is often said to have called compounding the eighth wonder of the world. But the narrow financial application of compounding may be the least valuable and least interesting aspect of this phenomenon."



Initially, I started this to connect with my students and to promote my blog. But later, I realised that it is one of the best things which I did as it helped me in personal growth and development, besides acting as a catalyst in MFP's growth. Through this weekly blog, I have developed a habit of reading and providing fresh and informational content to my readers on weekly basis.

2. Financial Education:

"Give a man a fish and you feed him for a day; teach him how to fish and he'll feed himself for life".

Financial education was started with the aim of "teaching different financial techniques as a business analyst under one roof." As Mr. Buffett said, *"Investing Is More Intelligent When It Is Most Business like". The* prime motive of this initiative is to improve my own learning because 'you learn more when you teach'.

We learn...
10% of what we read
20% of what we hear
30% of what we see
50% of what we both hear and see
70% of what is discussed
80% of what we experience personally
95% of what we teach to someone else

Source : Prof Sanjay Bakshi Talk

Initially, I started with a couple of certification courses on various financial topics in order to educate the masses and making them know about Financial Products and Business Evaluations. I gave my best in it but it turned out to be a total failure.

One day, I got a call from Ms. Megha (Customer Executive, ICICI Mutual fund) regarding CFP Certification Course. At that time, CFP^{CM} Coaching was not a part of MFP Education. She suggested, "Param if you are running these certification courses then you can also start CFP coaching".

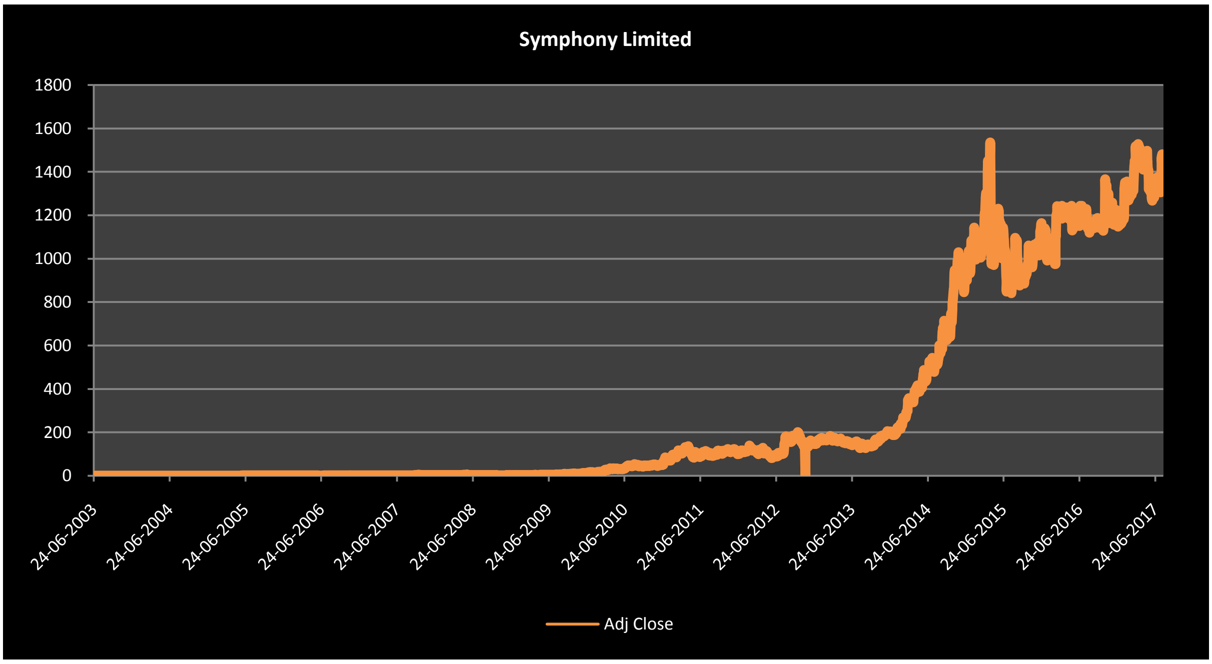
For a while I decided not to get into that segment but I saw a sign of learning zeal in her wordings that instigated me to start with CFP^{CM} Coaching and I begin teaching her. It proved to be fruitful as she compromised at various grounds to continue with her education. She worked hard for 2 months rigorously and her efforts paid off well when she cleared First exam: Risk Analysis & Insurance Planning (Later she also cleared Investment Planning Module).

During this teaching process, I met Mr. Manohar (Branch Manager, Birla Sun Life Mutual Fund) who was interested in course on Bond Market as it was his need. Taking two parallel courses (CFP Certification Coaching & Course on Bond Market) simultaneously, I realised if my initial certification courses had worked, it would have been tough for me to manage my time effectively.

What I learned from Symphony Case:-

Mr. Achal Bakeri, CEO, Symphony Ltd. also discussed importance of "FOCUS" in his Lecture (delivered at MDI, Gurugram) which was shared by Professor Mr. Sanjay Bakshi on his blog (fundooprofessor.wordpress.com). He explained how he managed to turn a bankrupt company into a fastest growing company. Initially, they were targeting one market (India) with different products (Air

Cooler, Washing Machine, Water Heater) which turned out to be a failure. Working on it, they realised the need to focus only on the core product (Air Cooler) but introducing in different markets (Whole World). This changed the whole equation.



Learning from Mr.Bakery; about the need of "FOCUS", I decided to club all the courses together & introduced "Grape course of financial market" course which was fulfilling all the needs of a financial professional.

As of now I have taken 3 batches & guided five students. Now one of my students is ready to appear for CFP exam & the others are doing their independent research. I expect that we will share & maintain same learning relationship throughout our lives.

My simple motive from MFP Education is building a team of researchers who are learning machines & wants to learn about businesses. Periodically we can meet & discuss our ideas. If it compounds over the period it will become a greater family.

3. Financial Planning

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe." - **Abraham Lincoln**

The 3rd part of MFP value chain is Financial Planning. Under this, I advise customers on their financial matters (Insurance Planning, Investment Planning, and Tax & Estate Planning) & also manage their investment portfolios. Or in other words my role for my customer is as a Capital Allocator. **Given below is my capital allocation process:**

a) During the first discussion session with investor, we discuss about their past investment experiences.
b) Then I make them aware about various financial assets, importance of long term compounding & importance of their behaviour in investment journey. I also discuss the role of advisor & investor during investment journey.
c) If they get convinced with me & feel that I am competent enough to be believed in practical approach towards managing their finance, they subscribe my services.
d) Then, on the basis of the information provided by them I construct a financial plan for attainment of their goals.
e) Later we discuss our assumptions & my recommendations.
f) Then I periodically monitor & review their portfolio. If required, I take desired actions.

3.1 Importance of Behavioural Finance:

"Your investments' performance doesn't determine real-life returns, your own behaviour does" - **Nick Murray**

Every point of financial process is very important but Point 2 has more weight age as per my understanding & experience, I found that **during investor-investment journey 80% their behaviour perform & 20% their asset perform.**

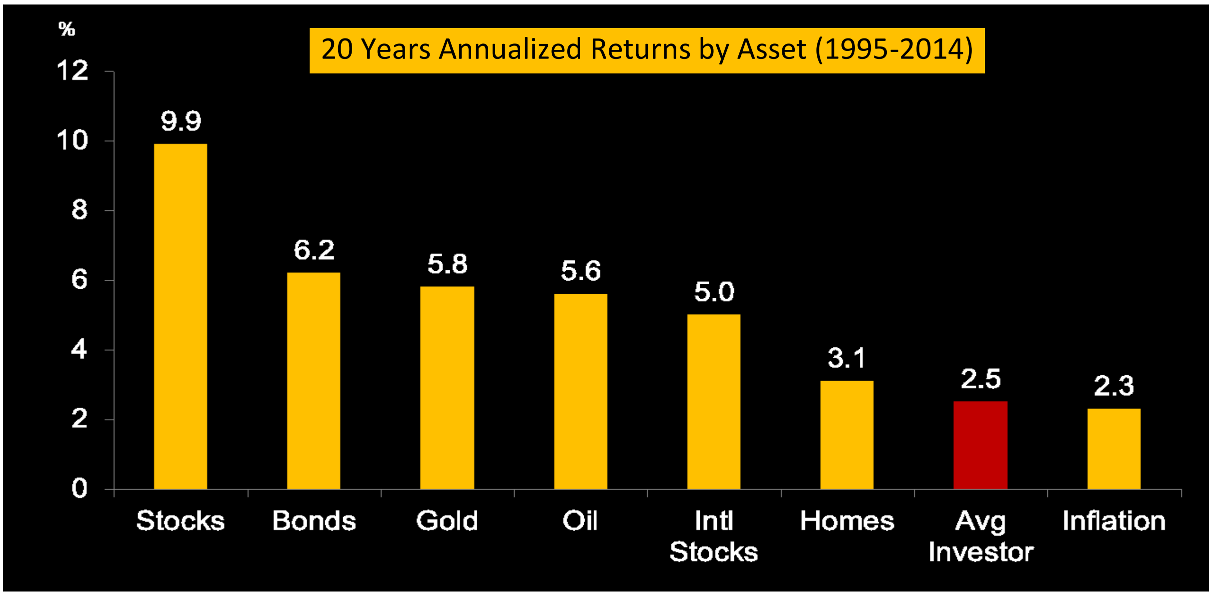
Three Edge of Investor	
A. Information Edge	An investor can outperform the market by having access to superior information such ground level data, ongoing inputs from management etc.
B. Analytical Edge	This edge comes from having the same information, but analyzing it in a superior fashion via multiple mental models
C. Behavioural Edge (Patient , Long term View)	This edge comes from being rational and long term oriented.
Rohit Chauhan: I personally think our edge can come mainly from the behavioural and analytical factors. The Indian markets had some level of informational edge, but this edge is slowly reducing with wider availability of information and increasing levels of transparency.	

Source: valueinvestorindia.blogspot.in/2017/01/on-outperformance.html

Personally also, I believe behavioural edge is the only edge over Information & Analytical edge that a small investor has. Jatin Khamani, (CEO, Stalwart Advisor) & Wesley R. Gray also discussed this in his presentation & interview.

In money management business, investor behaviour becomes important because generally, you receive money from investors throughout the year but investment opportunities to deploy that money is not available during that course. And at the time when the assets class enters into the bubble territory, it becomes very difficult to find the bargain & build conviction to stay out of that asset. This difference is realised through the study of Behavioural learning.

John Maynard Keynes, Economist also added that "Stock market investing is the one sphere of life and activity where **victory, security and success is always to the minority and never to the majority.** When you find everyone agreeing with you, change your mind."



Source: Blackrock, Bloomberg, Dalbar, Templeton and Phillips

In two decades stocks have given 9.9% return, whereas, an average investor received 2.5% only. From this, we can conclude that their entry & exit in the market is extremely critical.

Mr. Kalpen Parekh, President, DSP Blackrock mutual fund in his interview with stoic investing also said:

When I first met my bosses in IDFC Mutual Fund (Ex Employer) the first thought I learned was 14%-15% return, good mutual fund add 3-5% alpha, investor self also deliver 18% to 20% long term return, account statement of investors if we analyse, would be 6%-7%, so its classical behavioural gap and this is primarily because investor always invest when there is comfort of investing & comfort of investing always come with peak valuations.

So the learning I had when I joined IDFC it was 10 year organisation by then, IDFC has build this ethos that if we have to be relevant in the fund business in India as a young entity it will only happen when our investors make money, when investor have good intent and in spite of all good intent investor experience never tends to be good because of greed and fear hypothesis & these behaviour biases are wired through evolution, so however much you <u>attempt to educate, it's not very easy to remove these biases' so changing consumer is not easy</u>, <u>changing ourselves or our design or our product design is easier</u> so IDFC when it launched its equity business & one of its flexible fund called Premier 2005-06 came in concept that, we will raise money when there are more investment ideas. By definition: "More investment ideas are available when it is not easy to raise money & vice versa."

But MFP can do both: We can educate our investor about valuations & return matrix. Also at the time of High Valuation & Low prospective return situation we can deploy their investment in next best alternative. This leads to a short term under performance but give a positive return in over long run journey.

The Asymmetry of Negative Returns

Rule No.1: Never lose money

Year	Return Generated By Fund Manager A	Value of Rs.100 At The End of The Year	Return Generated By Fund manager B	Value of Rs.100 At The End of The Year
1	35%	135	15%	115
2	75%	236	20%	138
3	**-55%**	**106**	**9%**	**150**
4	25%	133	20%	181
5	20%	**159**	14%	**206**

Source : - Rajeev Thakkar Presentation

Rule No.2: Never forget rule No.1

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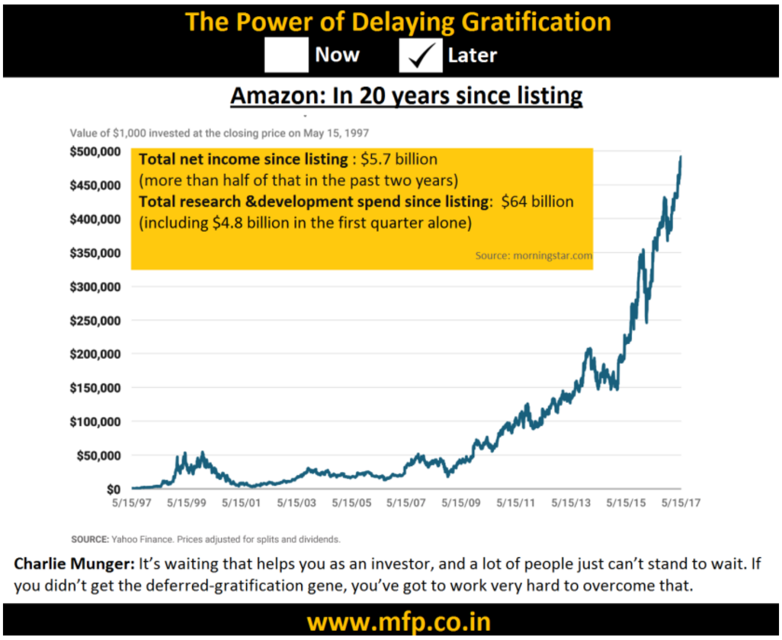
3.2 Importance of Long term thinking & delayed gratification:

"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."~Albert Einstein

I realised the need to focus on Long run Journey when I came across people of different age groups. With this age framework I understood that money allocation decisions are required at every stage of life then why do we think about short term period with our investor. I am a strong believer of Long term compounding. I know the importance of delaying gratification.



3.3 Importance of 'Do Nothing' approach:

"All of humanity's problems stem from man's inability to sit quietly in a room alone."
~ **Blaise Pascal**

In last point of allocation process, where my job is to monitor the investor portfolio & taking desired actions if necessary .I consider it as a BORING PROCESS because most of the time the best thing to do is "DO NOTHING". The question arises, "Why do nothing is best & hard advice?" One of my investors, a senior doctor discussed with me how he found "DO NOTHING"the best advice. He told me about his aged father who was suffering from cancer. He consulted many senior doctors for their advice & most of them advised him for operation but one of his well wisher who was senior surgeon advised him to "DO NOTHING" for his betterment. He mentioned that as a doctor I can follow this advice but as a son it was very difficult to follow that. **But he found that this is one of the best advices he ever got.**

Presently, MFP is providing services to more than 65 customers and managing more than Rs. 2.5 crores. On the occasion of second anniversary of MFP, I am pleased to launch **MFP App** which will help my investors in tracking their portfolio performance. Even though MFP already has portfolio tracking software, but the mobile app will provide them flexibility with better services. The link to the app & your User ID, Password will be forwarded to you via e mail.

I have tried to cover all the points which I felt might be of your interest by sharing my philosophy & experiences. If there is any doubt concerning any phase of the operations, I would welcome hearing it from you.

Paramjeet Redu
09-08-2017

STAYING FOCUSED DELIVERING VALUE