

**MY FINANCIAL POWER**

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Mohali – 140 306, Punjab (India)

**MFP 9<sup>th</sup> ANNUAL LETTER TO INVESTORS 2024**

August 09, 2024

**Dear Investors,**

I hope you and your family are in the best of health and prosperity.

It gives me immense pleasure to share with you that with your constant support and confidence in *My Financial Power* (MFP) services, today, we have completed 9 years of togetherness. I wish to thank personally to each one of you for putting your trust in MFP.

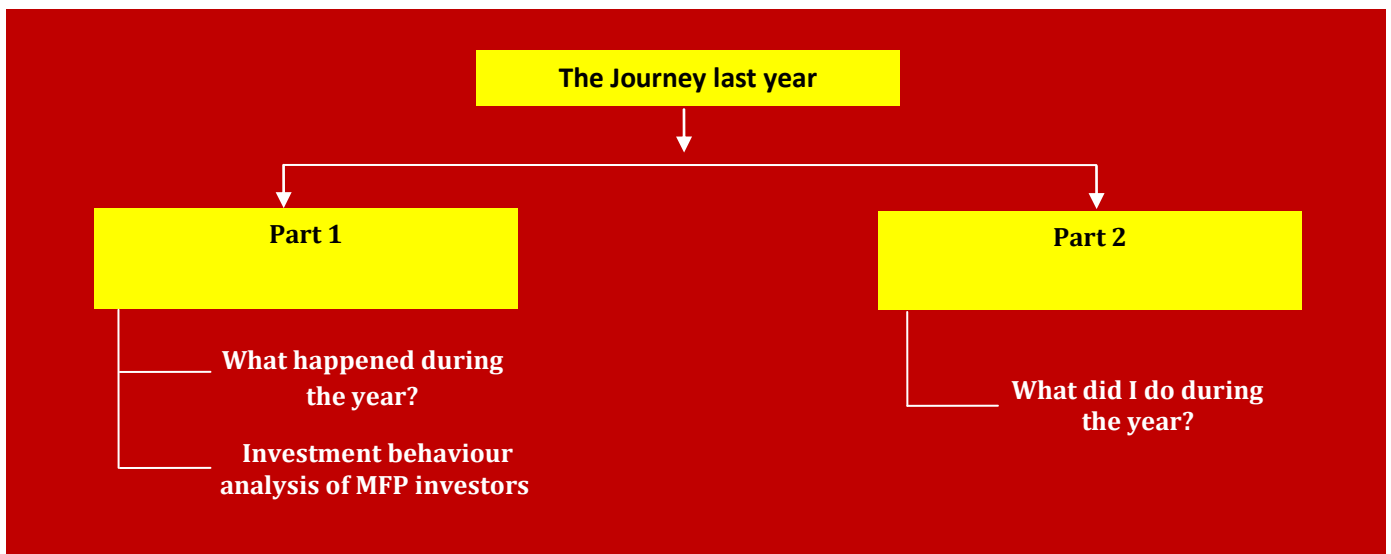
My aim is to help my investors in achieving their short, medium and long term financial goals. It makes me happy to witness different financial goals of my investors getting fulfilled, like someone paying off his loans early, someone buying his dream house with least of hustle-bustle, someone attaining financial independence, someone accomplishing child education goal etc.

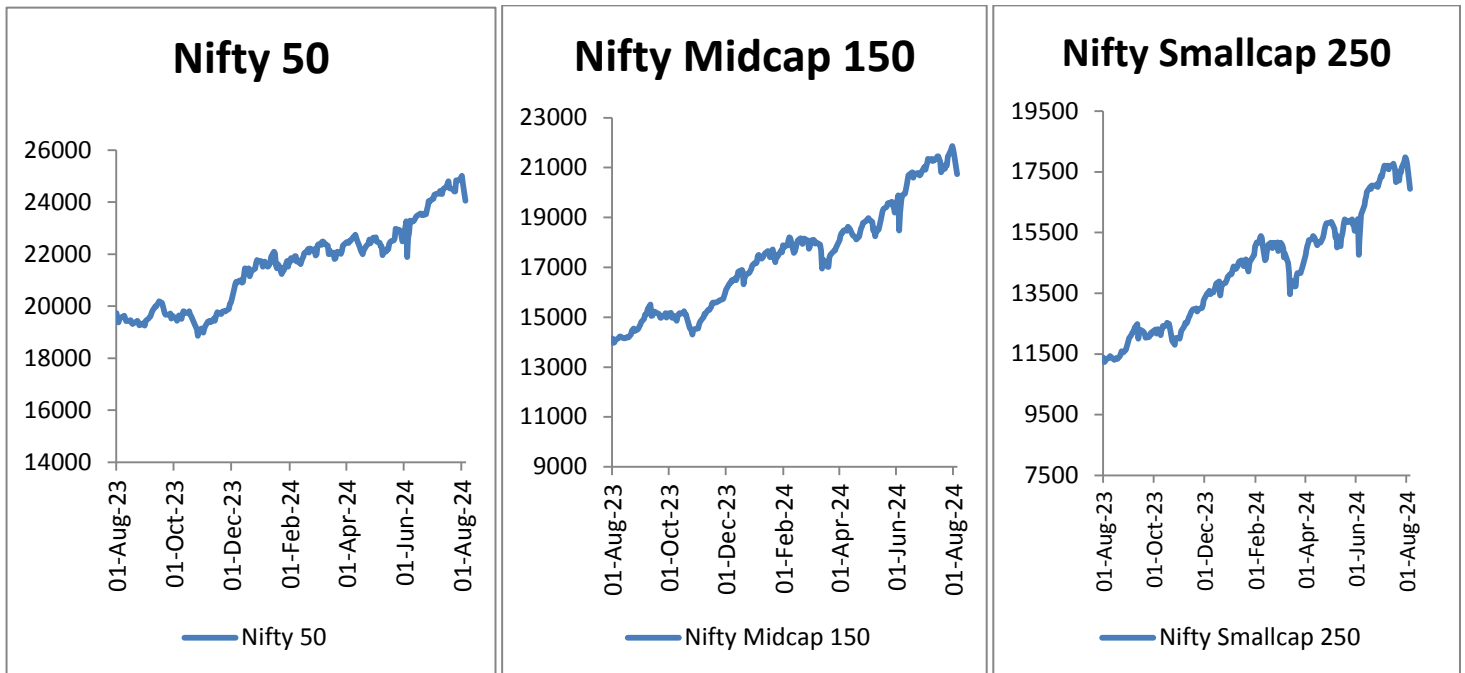
Within the last year, we've added 27 clients. Now our total customer tally stands at 176 and our asset under advisory stood at Rs. 21 crore after adjusting scheduled redemption of funds by clients who achieved their financial goals.

**MFP Journey at a Glance**

	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Number of Customers</b>	40	65	90	100	105	118	129	149	176
<b>Asset Under Advisory</b>	0.50 Crore	2.50 Crore	4.50 Crore	7.00 Crore	12.12 Crore	12.40 Crore	12.17 Crore	15.00 Crore	21.00 Crore

Let me take you along through this wonderful journey which I have divided into two parts. Welcome aboard!



**Part 1:****What happened during the year?***"Chance only favours the prepared mind." - Louis Pasteur*

- Post Covid, Indian equity markets were in strong upward momentum and it happened because of hefty improvement in the corporate balance sheets and ample liquidity created by the central banks across the world. October 2021 onwards, this strong upward momentum turned into downward momentum because of rising commodity prices, surging inflation, and supply chain disruptions. To control rising inflation, central banks across the globe started taking hard stance on interest rates.
- Tightening of liquidity has made foreign institutional investors (FII's) to withdraw their money from Indian equity and it led to fall in all major indices. Nifty 50 fallen more than 17.23% from its peak whereas Nifty Next 50(-21.8%), Nifty Midcap 150(-21.6%), Nifty Small cap 250(-26.9%) and Nifty 200 Momentum 30(-28.4%) were no exceptions.
- After making short term bottom in June 2022, Nifty 50 made new high in Nov 2022, but in March 2023 this rally has shaken again due to failure of the Silicon Valley Bank and the Signature Bank in the US and the collapse of Credit Suisse in Europe that triggered a global risk-off sentiment. After this fall, Indian market valuation became attractive and entered into fair value zone.
- **After 18 months of consolidation from April 2023 onwards, Indian market did show strong momentum on back of strong inflow by DIIs & FIIs.** Nifty 50 appreciated 31.2% whereas Nifty Next 50, Nifty Midcap 150, Nifty Small cap 250 and Nifty 200 Momentum 30 indexes appreciated 66.8%, 63.4%, 70.8% and 69.8% respectively.
- As per Savi Jain & Amit Mantri from [2 point 2 capital](#): *The rally has been quite broad-based with mid-caps and small-caps doing better than large-caps. While many companies have seen healthy earnings growth, a large part of the rise in stock prices has been driven by an increase in valuation multiples.*

By Market cap	Median TTM
Top 1000 Companies	47.3
Top 100	35.4
101-250	50.8
251-500	50.0
501-1000	43.8

Source: www.2point2capital.com

*Small and mid-cap valuations, in particular, have reached absurd levels never before seen in India's capital market history (not even in 2008 or 2018). Of the top 1000 companies by market cap, 217 stocks trade at valuations above 75x TTM P/E and 392 above 50x TTM P/E. Some investors justify the rich valuations on the basis of the high expected future earnings growth of these companies. Their expectations are driven by narratives of fast economic growth, multi-decadal industry tailwinds and favourable government policies. We believe this optimism suffers from base rate neglect.*

*The data of historical earnings growth suggests that very few companies are able to deliver high growth rates over a long period of time. The number of companies that are able to grow rapidly from an already high base of profits is even smaller. In other words, the base rate of companies growing at a rapid pace from an already high base over a long period of time is very low. **However, the valuations in the Indian market do not seem to account for these base rates.***

- **On Fixed income/Debt market:** Throughout the year, global bond market was toggling between two opposing narratives - "persistent inflation" and "recession" – particularly in the United States. Central bankers' data dependency and volatile economic data too kept bond markets at the edge.

During the last year, Indian 10-year government bond yield remained in a tight range between 7% to 7.38% and now currently trading around 6.99%.

From an investor's perspective, with higher starting yield and possibility of decline in bond yields over medium term, return potential of fixed-income funds investing in long duration bonds look good. Long term bonds tend to perform better during falling interest rate environment.

- Overall, Nifty 50 appreciated 26.4% during the year. In comparison, Nifty Next 50, Nifty Midcap 150, Nifty Small cap 250 and Nifty 200 Momentum 30 indexes delivered 65.2%, 54.5%, 57.7% and 67.3% return respectively.

Since inception of MFP in the year 2015, Nifty 50 has generated compounded return of 12.6% with maximum drawdown of -38% from its peak. In comparison, Nifty Next 50, Nifty Midcap 150, Nifty Small cap 250 and Nifty 200 Momentum 30 index have generated 14.9%, 18.8%, 16.2% and 20.3% return with maximum drawdown of -42%, -44%, -61% and -34% respectively.

In academics it is taught that the high risk means high returns but in investing low drawdown means high returns. Here the case is Nifty Small cap 250 which fallen -61% between Jan 2018 to Mar 2020 and delivered 16.2% CAGR since MFP inception whereas in the same period Nifty 200 Momentum 30 index which has fallen -34% and delivered 20.3% CAGR (compounded annual growth rate).

<b>Market Performance at a Glance</b>					
<b>Time Period</b>	<b>Nifty 50</b>	<b>Nifty Next 50</b>	<b>Nifty Mid Cap 150</b>	<b>Nifty Small Cap 250</b>	<b>Nifty 200 Momentum 30</b>
<b>01-08-2023 to 31-07-2024</b>	<b>26.4%</b>	<b>65.2%</b>	<b>54.5%</b>	<b>57.7%</b>	<b>67.3%</b>
01-08-2022 to 31-07-2023	14%	9.2%	24.5%	27.2%	21.7%
01-08-2021 to 31-07-2022	8.9%	3.9%	6.6%	-3.7%	-4.4%
01-08-2020 to 31-07-2021	42.5%	46.7%	79.4%	111.8%	61.9%
01-08-2019 to 31-07-2020	0.9%	4.4%	2.5%	-4.5%	13.2%
01-08-2018 to 31-07-2019	-2%	-12.5%	-13.6%	-23%	6.1%
01-08-2017 to 31-07-2018	12.3%	6.5%	7.4%	-4.6%	17.2%
01 -08-2016 to 31-07-2017	16.7%	24.1%	27.3%	30.8%	29%
09-08-2015 to 31-07-2016	0.9%	4.5%	4.9%	2.4%	1.9%
<b>Since MFP Inception 09-08-2015 to 31-07-2023</b>	<b>12.6%</b>	<b>14.9%</b>	<b>18.8%</b>	<b>16.2%</b>	<b>20.3%</b>
<b>Maximum Drawdown during 09-08-2015 to 31-07-2023</b>	<b>-38%</b>	<b>-42%</b>	<b>-44%</b>	<b>-61%</b>	<b>-34%</b>

## Investment Behaviour Analysis of MFP Investors

*“We don’t have to be smarter than the rest. We have to be more disciplined than the rest.” – Warren Buffett*

In the 2019 annual letter, I shared the actual story of an investor whose investment multiplied 100 times, and now that investment has multiplied more than 400 times for him. In 1995, he invested Rs. 1,000 in the Nippon India Growth Fund (earlier Reliance Growth Fund), the current value of his investment is Rs. 4,02,836. [Click here](#) to read the report on 400x story of an investor. In that report, I shared a lesson on how he behaved during the 400X journey.

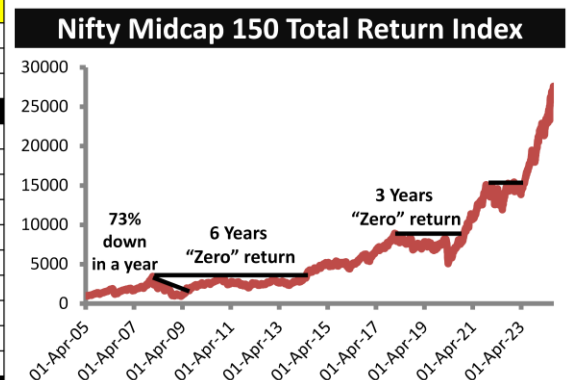
Every investor wants to generate this type of return on his investment, but only a few will be able to achieve so. During that period, Investment moves through different phases (smooth to volatile phase, good return to zero return, or negative return phase), and only a few investors have the courage to stay invested during all those phases.

### Biography of a SIP

A SIP started in April 2005 with Rs 10,000 monthly contribution on 1st of every month in Nifty Midcap 150 TRI Fund would have grown from Rs. 22.8 lakhs to Rs. 1.59 crore at the end of 19th year with an CAGR of 17.83%.

		Financial Year	Invested Amount	Value of Investment	CAGR Return
Don't Worry Phase	1 <sup>st</sup> year	2006	Rs. 1,20,000	Rs. 1,70,252	86.0%
	2 <sup>nd</sup> year	2007	Rs. 2,40,000	Rs. 2,92,731	20.4%
	3 <sup>rd</sup> year	2008	Rs. 3,60,000	Rs. 4,66,706	17.6%
	4 <sup>th</sup> year	2009	Rs. 4,80,000	Rs. 3,30,883	-17.7%
	5 <sup>th</sup> year	2010	Rs. 6,00,000	Rs. 9,39,993	18.01%
Stay Patient Phase	6 <sup>th</sup> year	2011	Rs. 7,20,000	Rs. 10,99,474	13.98%
	7 <sup>th</sup> year	2012	Rs. 8,40,000	Rs. 11,71,994	9.36%
	8 <sup>th</sup> year	2013	Rs. 9,60,000	Rs. 13,45,848	8.27%
	9 <sup>th</sup> year	2014	Rs. 10,80,000	Rs. 17,28,427	10.15%
	10 <sup>th</sup> year	2015	Rs. 12,00,000	Rs. 29,05,150	16.85%
Wealth Building Phase	11 <sup>th</sup> year	2016	Rs. 13,20,000	Rs. 29,74,377	14.02%
	12 <sup>th</sup> year	2017	Rs. 14,40,000	Rs. 42,23,935	16.75%
	13 <sup>th</sup> year	2018	Rs. 15,60,000	Rs. 50,52,414	16.73%
	14 <sup>th</sup> year	2019	Rs. 16,80,000	Rs. 51,41,544	14.74%
	15 <sup>th</sup> year	2020	Rs. 18,00,000	Rs. 36,82,269	8.96%
	16 <sup>th</sup> year	2021	Rs. 19,20,000	Rs. 75,95,379	15.54%
	17 <sup>th</sup> year	2022	Rs. 20,40,000	Rs. 96,25,345	16.30%
	18 <sup>th</sup> year	2023	Rs. 21,60,000	Rs. 1,00,11,513	15.17%
	19 <sup>th</sup> year	2024	Rs. 22,80,000	Rs. 1,59,20,123	17.83%

\*Past performance may or may not sustain in future.



[www.mfp.co.in](http://www.mfp.co.in)

Recently Cafemutual shared a [report](#) where they have mentioned:

*“Industry data reveals that 31% of the total SIP AUM in regular plan has stayed invested for over 5 years. Of the SIP AUM of Rs.10.01 lakh crore in regular plans, Rs.3.09 lakh crore has been invested for over 5 years. **In terms of a number of accounts, 16% of the total SIP accounts are active for more than 5 years.**”*

*On the other hand, 18% of the total SIP AUM in direct plan have longevity of over 5 years. **In terms of SIP accounts, 6% of total SIP accounts have been active for over 5 years.**”*

## SIPs Coming Through Distributors Stay Longer Compared to Direct SIPs

Regular plan				
SIP accounts continuing (In Years)	No. of SIP accounts	% SIP accounts	AUM (crore)	AUM %
> 5 years	89,76,689	16%	3,09,996	31%
> 4 years up to 5 years	29,55,558	5%	1,03,257	10%
> 3 years up to 4 years	36,63,341	7%	97,086	10%
> 2 years up to 3 years	79,49,586	14%	1,24,278	12%
> 1 year up to 2 years	1,04,33,853	18%	1,67,080	17%
Less than < 1 year	2,24,55,311	40%	2,00,214	20%
<b>Total</b>	<b>5,64,34,338</b>	<b>100%</b>	<b>10,01,911</b>	<b>100%</b>

Direct Plan				
SIP accounts continuing (In Years)	No. of SIP accounts	% SIP accounts	AUM (crore)	AUM %
> 5 years	21,38,636	6%	42,878	18%
> 4 years up to 5 years	19,52,254	6%	21,712	9%
> 3 years up to 4 years	28,71,350	9%	22,659	9%
> 2 years up to 3 years	46,12,265	14%	34,564	14%
> 1 year up to 2 years	49,22,621	15%	47,620	20%
Less than < 1 year	1,69,35,498	51%	72,448	30%
<b>Total</b>	<b>3,34,32,624</b>	<b>100%</b>	<b>2,41,881</b>	<b>100%</b>

Source: Cafemutual.com

At MFP, I believe 90% of my job is to manage investor's behaviour and 10% is to do asset allocation and fund selection. In this report, I want to highlight MFP investors SIP data in comparison with industry data.

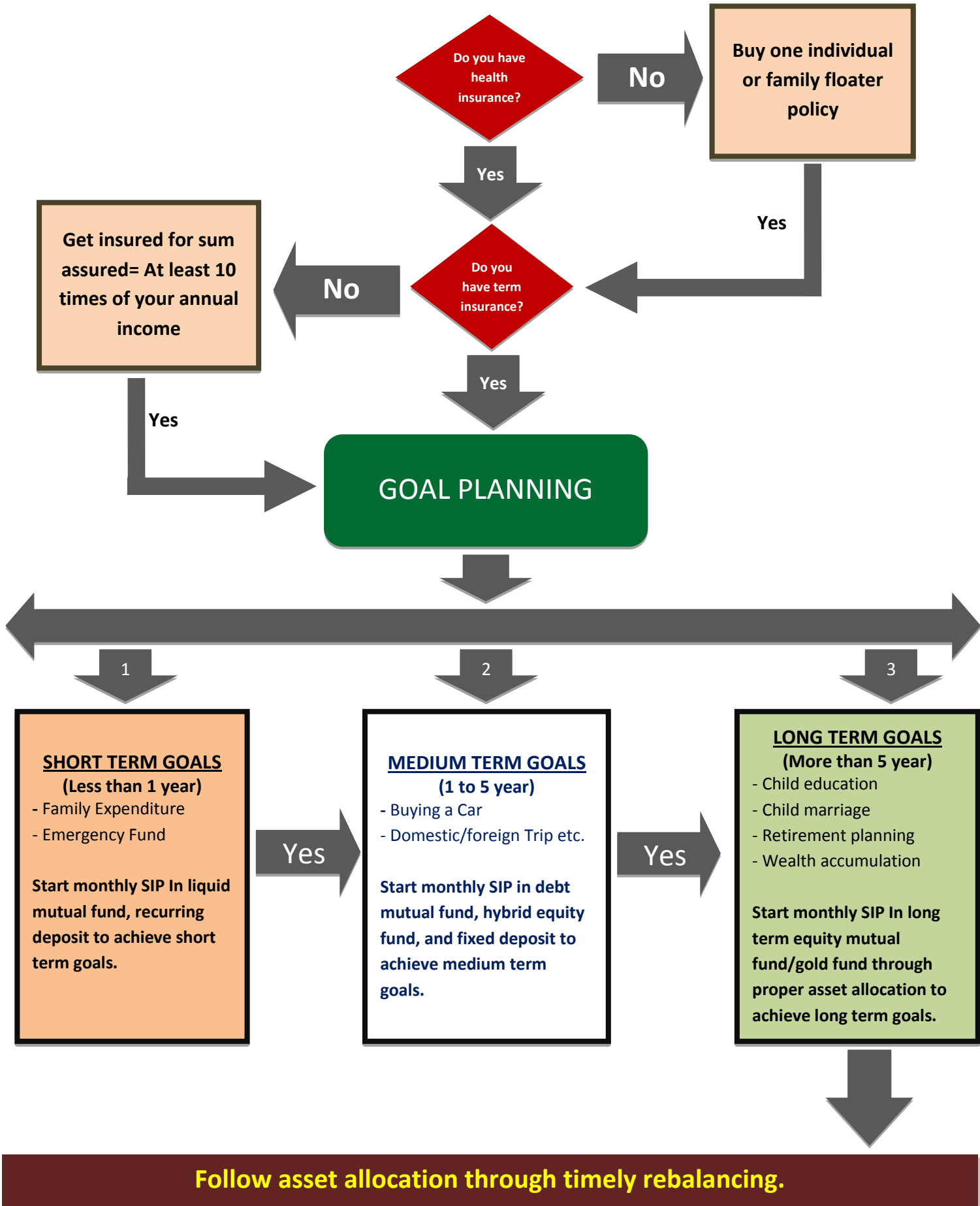
- Over the 5 years, we have had 100 investors who invested through us; 88 out of the 100 investors invested in equity mutual funds through SIP, whereas the remaining investors invested either lump sum or in debt funds as per their investment goals.
- **Number of investors whose SIP continues:**
  - **80%** of our SIP AUM (asset under management) has stayed for over a 5 year period, whereas only 31% of industry SIPs through distributors stay invested and only 18% SIPs through direct plan stay invested.
  - In terms of SIP accounts, **82%** of SIP accounts have been active for over 5 years, whereas only 16% of industry SIPs through distributors are active and only 6% SIPs through direct plans are active.

This is the result of the process we follow while onboarding our investors. We follow a very strict process before suggesting SIPs in equity. We know investment in equity is cyclical in nature, and the returns shown in the bull market can make any investor a long-term investor. But before recommending equity, we try to understand every investor's current financial situation and his future financial obligations through the MFP personal finance checklist chart (image below). Only once we allocate money for his short and medium-term goals, then we recommend SIPs in equity with a mix of other asset classes (gold/debt). We decide right asset allocation, regularly monitor it and recommend periodic rebalancing whenever necessary.

### Why asset allocation:

- From 1992 to 2003, the S&P BSE Sensex gave no returns, but in the next 4 years (2003 to 2007), the S&P BSE Sensex moved by 6 times.
- From 2012 to 2019, Gold gave no returns, but in the next year (2019 to 2020), Gold gave more than 66% returns.
- Living through both of these times is difficult if there is no Asset Allocation.

# MFP Personal Finance Chart



**Follow asset allocation through timely rebalancing.**

- **Number of investors who increased their SIP:** 49% of our investors increased their SIP contribution over the 5-year period. These investors increase their SIP contribution as their income grew or once they understand the power of equity in wealth creation as well as beating inflation by staying invested in different phases of the market. Continuous increase in SIP will help them achieve their investment goals early. We recommend that our investors increase their SIP contribution whenever their income increases.
- **Number of investors who stopped their SIPs and withdrawn their entire amount:**
  - 4% of our investors stopped their sip contributions and withdrew their whole amount over the 2-year period.
  - 9% of our investors stopped their sip contributions and withdrew their whole amount over the 3-year period.
  - 7% of our investors stopped their sip contributions and withdrew their whole amount over the 5- year period.

I feel this is a failure of our communication, and we will make every effort to reduce this number.

### **MFP Investors Investment Statistics**

*"It's only human nature to pay attention to short-term results but investment enlightenment is only achieved once you realize long-run is the only time horizon that matters.  
Successful investing is for patient people." - Ben Carlson*

	<b>MFP Investors who invested over 5 Years</b>	<b>MFP Investors who invested over 3 Years</b>
<b>Total number of investor</b>	<b>100</b>	<b>118</b>
<b>Number of investors who invested through SIP in equity funds</b>	<b>88</b>	<b>104</b>
<b>Number of investors who's equity SIP continued &amp; invested more than 5/3 years</b>	<b>71 (81%)</b>	<b>84 (81%)</b>
<b>Number of investors who's SIP is continue</b>	<b>78 (82%)</b>	<b>92 (82%)</b>
<b>Number of investors who increased their SIP</b>	<b>47 (49%)</b>	<b>57 (51%)</b>
<b>Number of investors who paused their SIPs but amount stay invested</b>	<b>5 (6%)</b>	<b>5 (5%)</b>
<b>Number of investors who stopped their SIPs &amp; withdraw their all amount</b>	<b>16 (18%)</b>	<b>18 (17%)</b>
<b>Number of investors who stopped their SIPs but withdraw partial amount</b>	<b>3 (3%)</b>	<b>3 (3%)</b>



## **Part 2:**

### **What did I do during the year?**

*“You can’t take the same actions as everyone else and expect to outperform.” - Howard Marks*

During the year, as per the above-mentioned MFP framework, we suggested the following things:

- Investing money through Systematic Investment Plans (SIPs) and Systematic Transfer Plans (STPs) in equity for their long term goals.
- Recommended lump sum buying in hybrid schemes (Multi Asset Allocation Fund, Balanced Hybrid Fund/Aggressive Hybrid Fund, Equity Savings Fund, Dynamic Asset Allocation Fund, Arbitrage Fund and Conservative Hybrid Fund) as the market was in the above fair value zone.
- On the Fixed income/Debt market, I suggested short-duration debt funds (liquid fund, ultra-short bond fund, money market fund, and floating rate bond funds) to investors for short-term goals and for more medium-term goals, I suggested banking & psu debt funds & dynamic bond funds.
- Stick to your asset allocation, which balances the risk profile of your investment portfolio.

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I have tried to cover all the points that I felt might be of interest to you by sharing my thoughts and experiences. If you have any doubts, queries, or points to share, I would love to hear them.

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