

METHODOLOGY

Mid & Small Cap Model Portfolio

MID& SMALL CAP PORTFOLIO – AGGRESSIVE RISK PROFILE

Introduction

With Yadnya's Mid & Small Cap Model portfolio, what we are offering is a portfolio built using Yadnya's FIVE-G framework. The idea is to find out companies that have the potential to grow and become the next large caps.

After the big hiccup faced in 2017 NBFC crisis, small and mid-cap stocks took a huge beating. However, looking at the push by the government for "Aatmnirbhar Bharat" & "Vocal for Local", we see small and mid-cap stock coming back to life again. Moreover, global prevalence of COVID induced anti-China sentiment is providing an opportunity for India to prove itself, thus the small and midcap market is abuzz again.

Stock Selection Approach

For portfolio construction, this Model Portfolio uses Yadnya's FIVE G framework

F – Financials

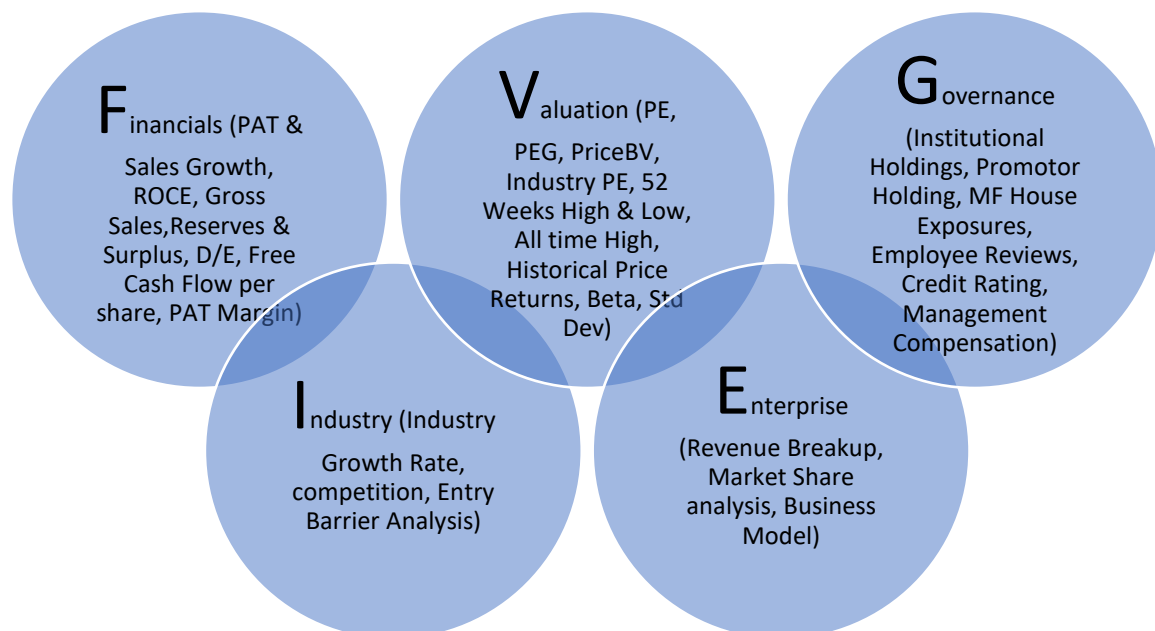
I – Industry

V – Valuation

E – Enterprise

G – Governance

We consider many fundamental, technical, industry parameters for coming up with individual scores of all the companies in the screened universe of stocks. Some of these parameters are mentioned here:



Based on the individual scores, companies are ranked within their respective sectors. Then we do tactical sector allocation and the top ranked companies within those sectors are picked for constructing the portfolio.

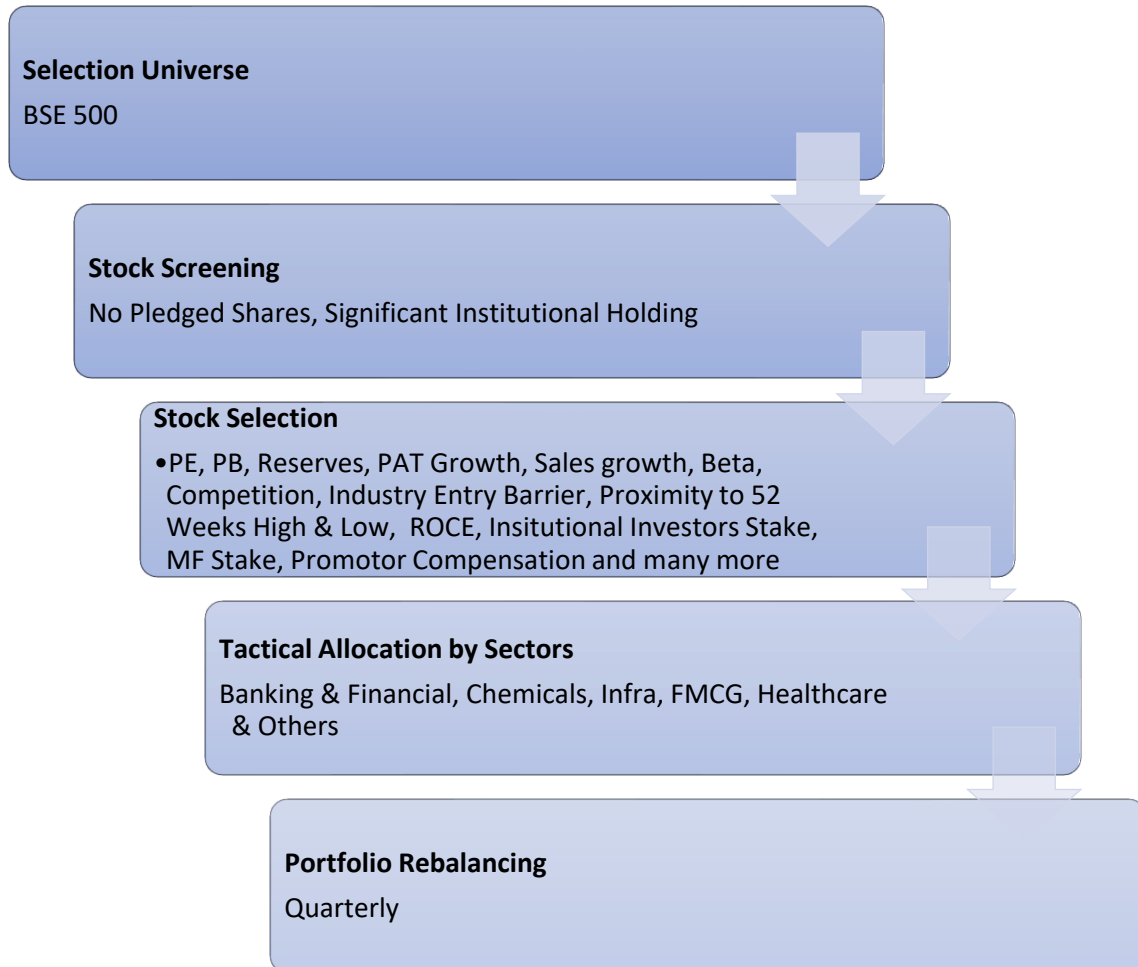
Investment objective

The aim is to generate long term returns by investing into mid and small cap companies with growth potential.

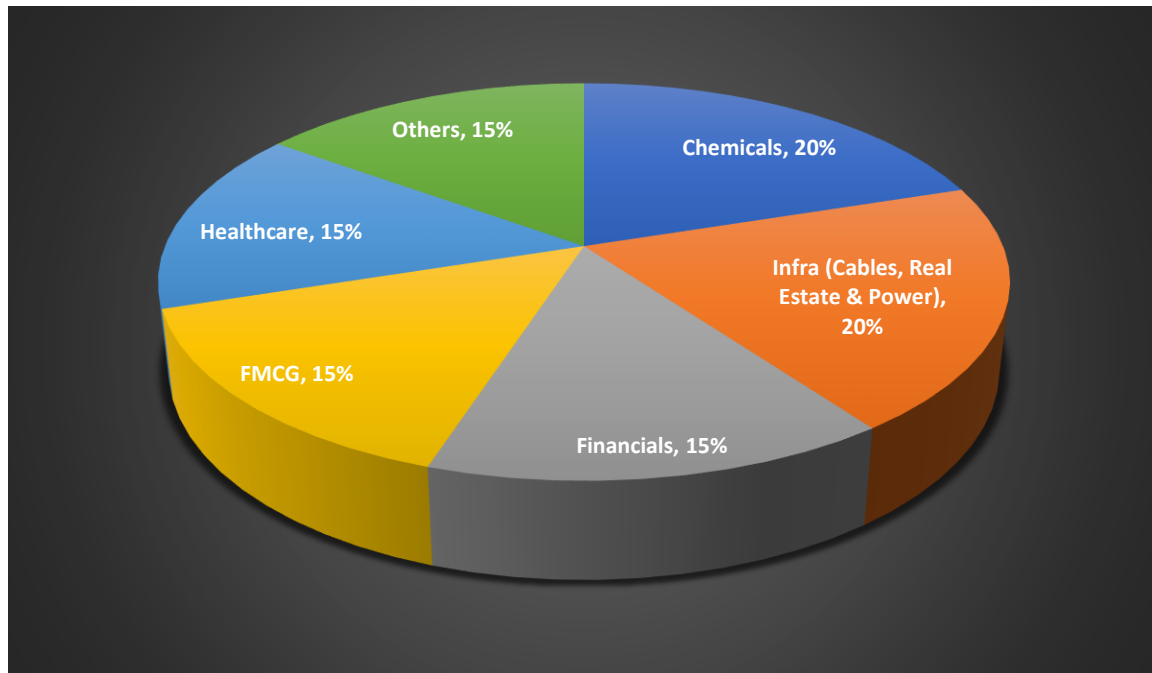
Strategy

Buy and Hold investments with a time horizon of 10 years in mid & small cap stocks with strong fundamental characteristics and sound management.

Methodology



Tactical Sectoral Allocation



Risk mitigation strategy

We actively consider risk parameters like Beta and Standard Deviation in our analysis. Incorporating these parameters help in constructing portfolios with limited downside risk. Thus, if the benchmark stocks take a steep fall, the constructed model portfolio falls at a lesser pace and quantum. One of the criteria for selecting stocks is that after constructing the portfolio, Beta and Standard Deviation of the constructed portfolio is less than Beta and Standard Deviation of the benchmark.

Exit strategy

A peculiar thing with mid cap stocks that are as per AMFI classification ranked from 101 to 120 is their jumpiness to large cap category. There is a remarkably high probability of them moving to the large cap category and then coming back to the same levels. Due to market movements and positive news, they may jump to large cap, for such stocks, we will wait and watch for some time if the leap looks permanent or if it is a temporary jump. If the stock rockets to NIFTY 50, then for sure we will exit the stock from this portfolio and depending on its performance we may move it to any of our multi-cap-oriented model portfolios. Ultimately, the goal for these mid-caps and small caps is to become large caps and that is why we are building this portfolio to catch the next large caps in pipeline.

Is this model portfolio for you?

This portfolio is meant for extremely aggressive investors i.e. investors who are willing to accept periods of high market volatility in exchange for the possibility of receiving returns that outpace benchmark indices like NIFTY 50 & Sensex by a significant margin. It is important to have a long-time horizon for aggressive investors investing in direct stocks because if there is a severe downturn in the market, an investor will need plenty of time to make up for the decline in value.

The expected average rate of return from a portfolio is 15-18% over time. In its best year, it might gain 20-30% and in its worst year, it could decline by 20-30%.

These are typical investor profiles who can refer to this portfolio, please note these small and mid-cap allocations should be in addition to the large cap allocations –

1. A moderate to high risk taker 20 – 30-Year-old investor with low liabilities and high savings rate.
2. A high risk taker 35 – 50-year-old investor with dependents, above average savings rate, and stable & well growing job
3. A very high-risk taker above 50-year-old investor who has no liabilities, and all financial goals are taken care of.

Typically, to begin investing, we recommend starting with the mutual fund route, wherein you rely on the professional expertise of fund managers for making stock choices for you. After the initial learning curve, we suggest following it up with the combined approach of Mutual Funds and some percentage of direct stock exposure to large caps. After getting comfortable with stock investing in large caps, then only you should consider looking at mid-caps and small caps.

Time Horizon

Min. 10 years

Rebalancing

Quarterly

Index

BSE Mid Small Cap Index

Important Dates

Inception Date – August 31st, 2020

Launch Date – September 3rd, 2020

Market Cap Category – Mid & Small Cap

Next Rebalancing on – December 10th, 2020

Back testing Results

Time Period	Portfolio Return %	BSE Mid Small Cap Index Price Return %
1 month (from 31 st Aug to 30 th Sep 2020)	4.01%	2.28%
1 Year	32.52%	10.04%
5 Year	19.55%	6.6%

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