**Oct 2020**

METHODOLOGY

Value Model Portfolio

VALUE PORTFOLIO – MODERATE RISK PROFILE

Introduction

With Yadnya's Value Model portfolio, what we are offering is a portfolio built using Long Term Value Investing Strategy. Value investing is a term made popular by Mr. Benjamin Graham who is also known as the father of value investing and in recent times by Mr. Warren Buffett, CEO of Berkshire Hathaway. In his 2008 Berkshire Hathaway Chairman's Letter, Warren Buffett has said - "Long ago, Ben Graham taught me that price is what you pay; value is what you get. Whether we are talking about socks or stocks, I like buying quality merchandise when it is marked down."

To put it simply, it means buying undervalued stocks of companies that have strong business models and holding these stocks over a long period of time. This philosophy has worked wonders for many patient and diligent investors. These are some of the main components of a value portfolio:
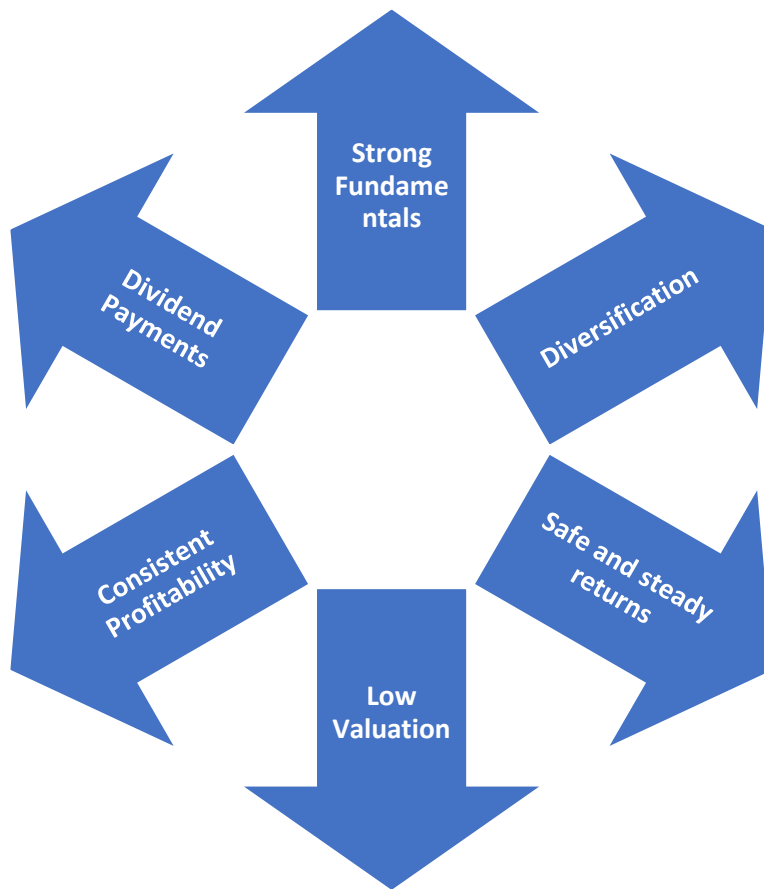
Stock Selection Approach

For portfolio construction, this Model Portfolio uses primarily fundamental parameters with a hint of technical parameters. These parameters include Price to Earnings ratio, Price to Book ratio, Dividend Yield, Debt to Equity, Profit After Tax % growth, Earnings per Share, Beta and trendline analysis of some of these parameters.

Some of the screening criteria used for the portfolios are that the Debt to Equity ratio should be low, no pledged shares, Price to Earnings ratio should also be lower than its past highs and interest coverage ratio should be high as compared to peers in the same sector. For Banking sector, Gross Non-Performing Assets and Net Interest Margins were important factors that have been utilized for screening stocks.
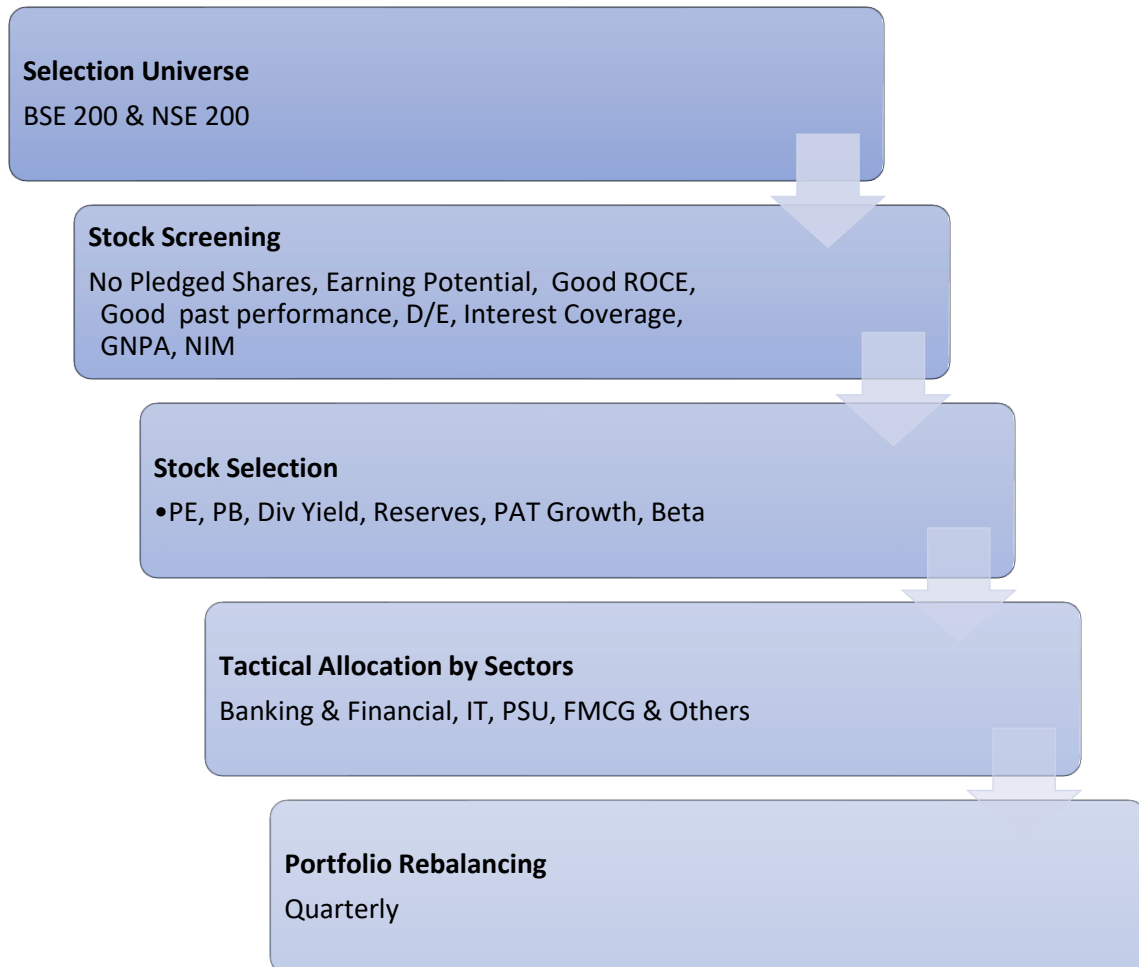
Investment objective

The aim is to generate long term returns by investing into stable companies that are currently undervalued – **a value driven large cap and mid-cap portfolio**.
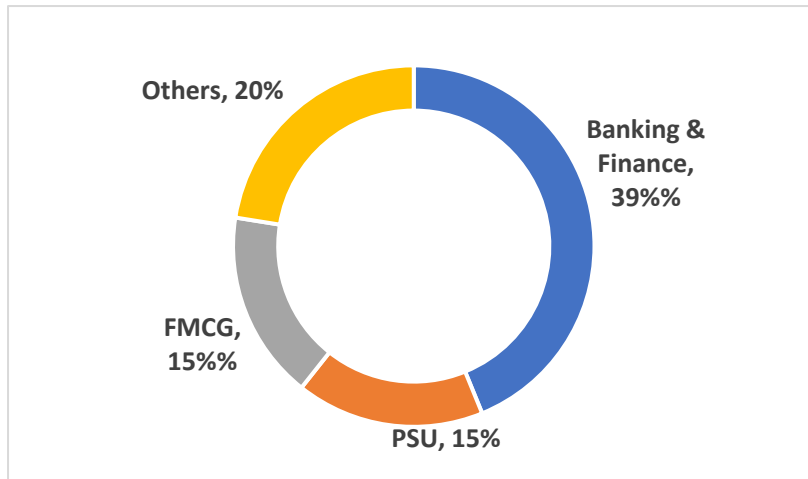
Strategy

Buy and Hold investments with a time horizon of 5 years in stocks with strong fundamental characteristics and sound management.

Methodology

Selection Universe

BSE 200 & NSE 200

Stock Screening

No Pledged Shares, Earning Potential, Good ROCE,
 Good past performance, D/E, Interest Coverage,
 GNPA, NIM

Stock Selection

• PE, PB, Div Yield, Reserves, PAT Growth, Beta

Tactical Allocation by Sectors

Banking & Financial, IT, PSU, FMCG & Others

Portfolio Rebalancing

Quarterly

Tactical Sectoral Allocation

Others, 20%

Banking & Finance, 39%%

FMCG, 15%%

PSU, 15%

Please note this model portfolio is suitable for investors with moderate risk tolerance and risk appetite. 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 approach of Mutual Fund driven portfolio with some percentage of direct stock exposure.

Guidelines

1. 10 - 20 stocks portfolio
2. Stock portfolio - Minimum exposure of 3% and maximum 10% to avoid concentration risk

Is this model portfolio for you?

This value portfolio is meant for moderate risk profile investors i.e. investors who are willing to accept periods of moderate market volatility in exchange for the possibility of receiving returns that outpace inflation by a good margin. It is important to have a long-time horizon for moderate risk profile 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 value portfolio is 11-13% over time. In its best year, it might gain 15-20% and in its worst year, it could decline by 20-30%.

These are typical investor profiles who can refer to this portfolio –

1. A low risk taker 20 – 30 Years old investor with limited liabilities and above average savings rate
2. A medium risk taker 35 – 50 years old investor with dependents and high savings rate and a fair allocation already done to mutual funds for meeting their retirement goals.
3. A high-risk taker above 50 years old investor with no liabilities and a good retirement corpus in place

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.

Time Horizon

Min. 5 years

Rebalancing

Quarterly

Index

BSE200 Total Return Index

Important Dates

Inception Date - March 25th, 2020

Launch Date - March 25th, 2020

Market Cap Category - Large & Mid-Caps

Last Rebalancing on – Sep 30th, 2020

Next Rebalancing on – Dec 30th, 2020

Back testing Results

Stocks have been selected based on the criteria that the stocks have fallen more than the benchmark which is clearly visible in the back-testing results.

Time Period	Portfolio Return %	BSE 200 Price Return %
1 month (from 31st Aug to 30th Sep 2020)	**-1.99**	**-0.46**
3 months	5.65	10.29
1 Year	-9.9	3.64

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