Equities as an asset class for wealth

Aashish Somaiyaa, chief executive officer of Motilal Oswal Asset Management, outlines the importance of focusing on long-term performance, and outlines the firm's investment philosophy and process.

The last few years have seen various challenges for equity investors. In particular, macro-led stock-picking hasn't worked, says Aashish Somaiyaa of Motilal Oswal Asset Management, adding that various crises and political events have highlighted this.

By considering factors which are both knowable and unknowable, he says investors should focus on what is both important and knowable.

This therefore leads to a focus on long-term performance.

According to Somaiyaa, markets eventually return as much as growth in earnings. "But it is important to keep in mind that the market is twice as volatile as its earnings," he adds.

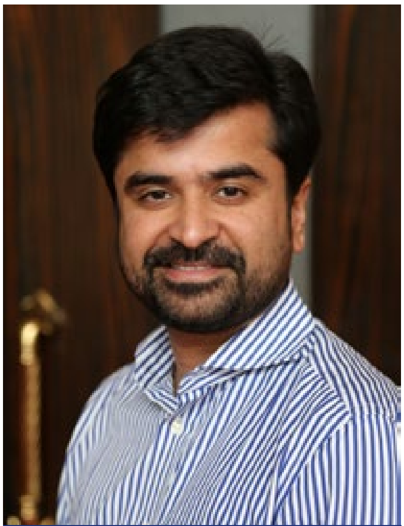
There are some key points to note, he explains. For example, over the long term, stock prices grow as much as earnings in the companies grow.

Further, returns are generated from earnings, not from stock markets. Stock markets just provide liquidity and price discovery. There are also multiple factors which affect earnings estimates, and hence stock prices may show no correlation with earnings in the short term. At the same time, stock prices may tend to be beaten as companies deviate from its growth trajectory.

THE MOTILAL OSWAL APPROACH

According to Somaiyaa, his firm's investment strategy is to double portfolio earnings in three to four years.

While the entry level will determine returns, there should be no risk of losing capital over three to five years. He also says buying relatively higher PE with high growth and high RoE is better than buying at lower PE but uncertain growth. Further, there is an opportunity cost to buying cheap if growth comes back-ended; it is better to buy growth slightly more expensively. ■



AASHISH SOMAIYAA
Motilal Oswal Asset Management

Link to Presentation Video

Link to Speaker Biography