

*“Water hollows out for itself a channel, which grows broader and deeper; and, after having ceased to flow, it resumes, when it flows again, the path traced by itself before.”*

*Source: The Power of Habit – Charles Duhigg*

Youngest Candidates Winners		
Player	Age	Year
Gukesh Dommaraju	17 years, 10 months, 24 days	2024
Garry Kasparov	20 years, 11 months, 27 days	1983/84
Magnus Carlsen	22 years, 2 months, 4 days	2013
Mikhail Tal	22 years, 11 months, 20 days	1959
Anatoly Karpov	23 years, 5 months, 30 days	1974
Viswanathan Anand	25 years, 3 months, 11 days	1994/95
Fabiano Caruana	25 years, 7 months, 28 days	2018

17 year old Gukesh made history by winning the candidates tournament in Chess couple of days back. Candidates is one of the strongest tournaments in the Chess world, in which the eight super Grand Masters play an excruciating double round robin against each other over 2 weeks. He is now the youngest Candidates Winners and might as well become the youngest world champion in November, when he faces Ding Liren.

There are just so many life lessons and investing lessons from this win, it is just unbelievable.

 **Judit Polgar** @GMJuditPolgar · 2h  
 And the answer is: GUKESH!  
 His concentration and focus are outstanding! His dedication, good nerves, calmness. He is also very strong in being in his presence.  
 Superb performance!  
 Congrats to Gukesh for winning #FIDECandidates 2024! 🙌👏👏  
 #ChessConnectsUs @wwwchesscom



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Gukesh comes from a very humble background and his dad had to sacrifice his doctor career to see his son prosper. In a world where instant gratification is the norm, this level of patience and sacrifice could look outlandish - we all need plenty of this! *In today's world, ambition is not in short supply but patience is.*

This teenager's first and only love has been chess. The intensity that he brings to the chess table is a testament to his love for the game. All the stalwarts including Bobby Fischer, Kohli and Magnus Carlsen have all followed their hearts into doing what they love. *There is no greatness without intensity.*

Interestingly, Magnus (GOAT in chess) in his pre-tournament predictions, did not give a chance to any of the 3 Indians to top the tournament. A young kid who over hears this would definitely have been perturbed but not Gukesh. He has always been rooting for himself, never brags but has Dhoni-sque calm and confidence. *It shows his faith in preparation, intellect and process - much akin to investing.*

What really impressed me about this young boy is his comeback from a loss in the 7th round against Alireza Firouza. He was in a clearly winning position, but lost it due to a scramble for time. Post that match, he was definitely shattered, but the way he picked himself up and came back after that would have put the stoics to shame. *We all fall, but those that stand up after that, are the ones who stand out.*

And finally, he always had a great set of mentors who nudged him to the next level. Starting from his mom at a very early age, who spotted his talent and set him on the path to play professional chess. His childhood coaches including Bhaskar, Vijayanand, Vishnu Prasanna - they all seemed have played their roles well by handing over the reins to a better coach when the time was right for Gukesh to level up. Last but not the least, Madras tiger Vishy Anand's role in grooming him both through West Bridge Anand Academy and by introducing him to Polish GM Gajewski. *We all need our guardian angels in pursuing big goals.*

What a tournament it was! I just could not contain my elation after his victory yesterday in the tournament. Clearly, we all have several leaves to borrow from this young man's book.

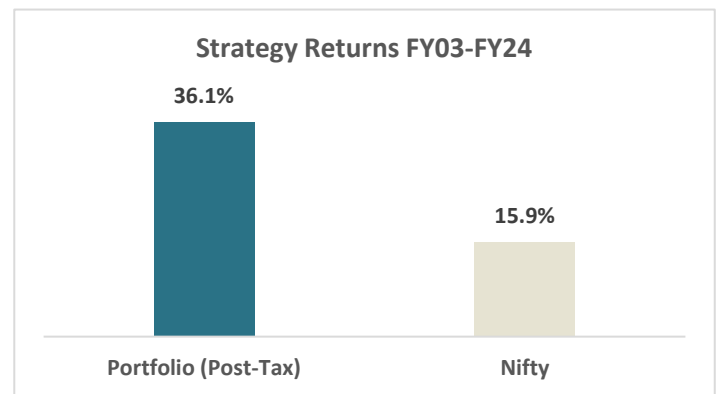
In our earlier newsletters, we covered how earnings momentum is an underappreciated factor and how Growth (earnings growth) factor outperformed all other factors in the long run.

In this newsletter, we cover another interesting strategy that combines short term price momentum (represented by 3 month Sharpe Ratio) and quality of earnings (represented by return on equity) on the NIFTY 500 stocks over two decades. We have tried our best to keep biases like survivorship, sectors, qualitative factors such as management quality, valuations aside.

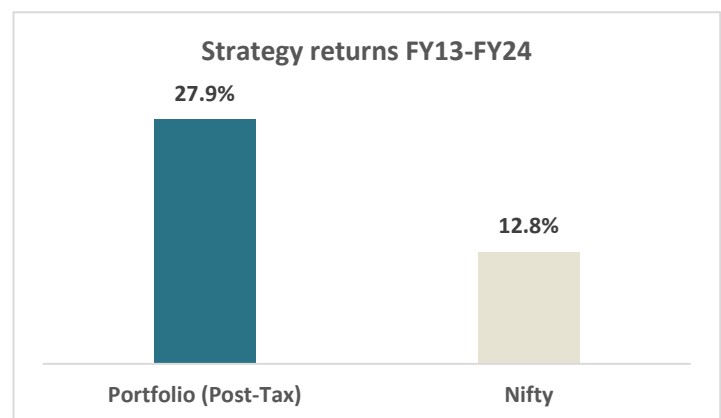
### Strategy in a nutshell:

- Invest in Top 30 companies with highest Sharpe Ratio and 15%+ RoE
- Portfolio is rebalanced every month

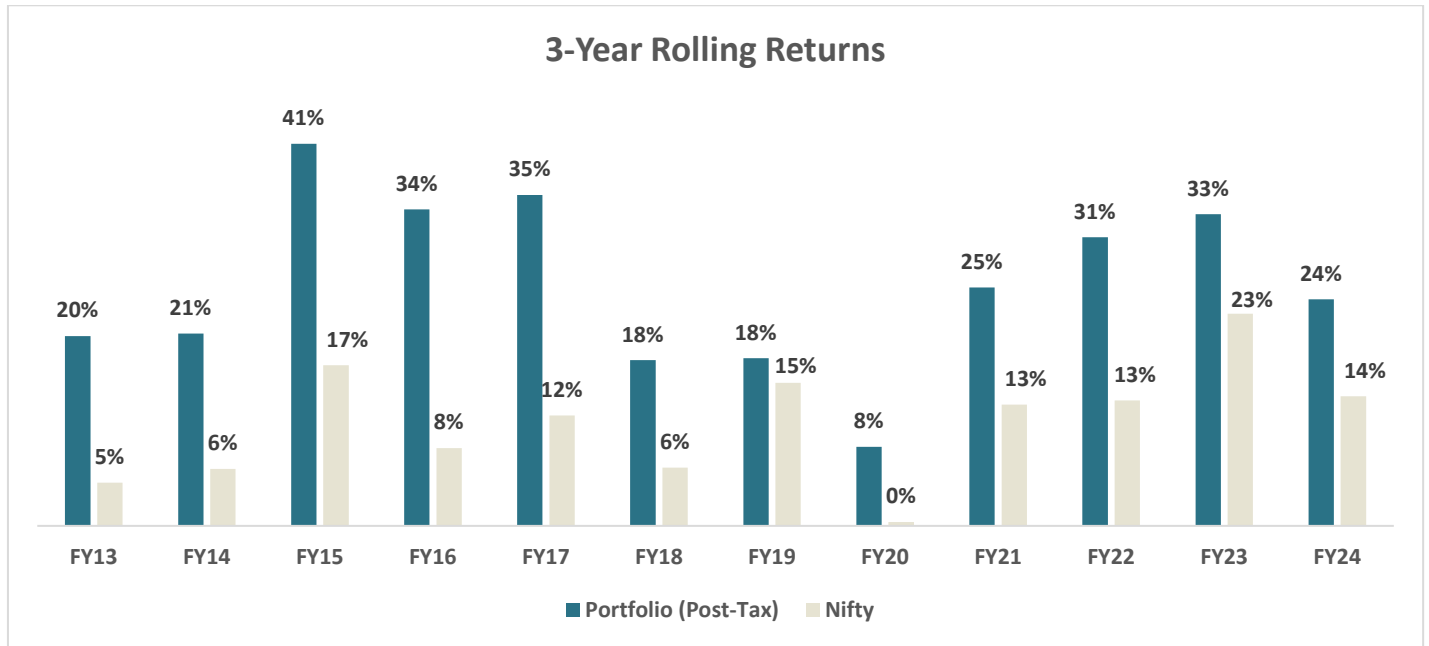
We back tested this strategy starting March 2003 up to March 2024. Over this period, Nifty delivered 15.9% cagr while the strategy (post-tax) delivered 36.1% CAGR. This obviously is a phenomenal outperformance over the long run. But, one could argue that we could not have implemented the strategy in the 2000s given the shallowness of the market with the 500th stock having a market capitalization of ~ INR 20 crores and lack of liquidity.



Hence, we started looking into the strategy results from March 2013 when the 500th stock (By Mcap) in the NIFTY500 stock was of reasonable market cap at INR 1000 cr providing sufficient liquidity for strategy implementation. Between March 2013 and March 2024, Nifty delivered 12.8% CAGR while the portfolio (post-tax, gross of fees) delivered 27.9% CAGR. The portfolio outperformed the index in 9 out of 11 financial years.



**3 Year Rolling return** for the same strategy is presented below:



*3Y Rolling: FY13 Returns would be annualized return for FY10-FY13 period. FY14 would be for FY11-14 and so on.*

On 3-Year basis, it has out-performed the benchmark in every single instance.

*The results were staggering to say the least (of course, all back tests always work the best:)), but what is intriguing is:*

- *Size and longevity of alpha*
- *Price momentum as predicted by Jegadeesh/Titman being a strong factor for outperformance*
- *Business quality only accentuates the outperformance i.e. If you have picked the right business, stick around till the tide rises.*

Please write to us for further details in case this strategy interests you.

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