

IBKRWEBINARS.COM



December 16, 2021

# GFM Focus Investing

## If You Want Thrills, Then Trade. If You Want Wealth, Then Invest.

---

**Anand Batepati**

Portfolio Manager  
GFM Focus Investing

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. Interactive Brokers LLC is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you.

Interactive Brokers LLC does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.



## Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit [interactivebrokers.com](http://interactivebrokers.com).

Security futures involve a high degree of risk and are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading security futures, please read the [Security Futures Risk Disclosure Statement](#). For a copy visit [Interactivebrokers.com](http://Interactivebrokers.com).

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.
- Interactive Brokers LLC is a member of [NYSE FINRA SIPC](#)



**If You Want Thrills, Then *Trade*.**  
**If You Want Wealth, Then *Invest*.**

Anand Batepati, Portfolio Manager

## IMPORTANT INFORMATION

GFM Group Limited is a Hong Kong SFC Type 9 licensed Asset Management company. GFM Asset Management LLC, is a United States SEC Registered Investment Advisor. They are referred to as “GFM” below. GFM Focus Investing is our brand identity. **GFM is not affiliated with any financial institution.**

**This presentation is for educational purposes only. Nothing herein is investment advice or recommendation to buy or sell any security or investment asset.** This is not a solicitation from GFM for any relationship or transaction. It is also not tax or legal advice. Information herein is an opinion being expressed, which may be biased, wrong or based on erroneous data. The information is presented “as is” and may contain errors. Use of the information herein is entirely at the reader’s own risk.

**Do not make any investing decision based on the information herein.** GFM disclaims all liability for any investment action that the reader takes, whether or not such action was influenced by the information herein. Information herein is not a guarantee by GFM of any future returns. Investing involves several risks, including the risk of loss of some or all the money invested. Past performance is not indicative of future results.

**By participating in this webinar and reading the material in this presentation, the reader is deemed to have agreed to the above.** In case the reader does not agree, then he/she may not read the presentation any further and is also requested to destroy all copies of this presentation in his/her possession.

## ANAND BATEPATI

Co-founder of GFM. Portfolio manager and co-investor alongside clients. Over 20 years of experience in New York, London, Hong Kong. Two finance master's degrees.

- Long / short fundamental investor with a concentrated portfolio.
- Designed quant investment strategies that managed several billion dollars at Bear Stearns.
- Launched a Fund of Hedge Funds in London.
- Co-founded and sold a tech startup in the US. Became a startup investor after that.

Mix of fundamental and quantitative skills. Held roles in value investing, derivatives trading, startups, private equity and accounting.

Visit [gfmfocus.com](http://gfmfocus.com) for more information.



## CAREER HISTORY



**GFM**  
FOCUS INVESTING

**BEAR  
STEARNS**



**J.P.Morgan**



**HSBC**

**Rabobank**

**LIABILITY SOLUTIONS**

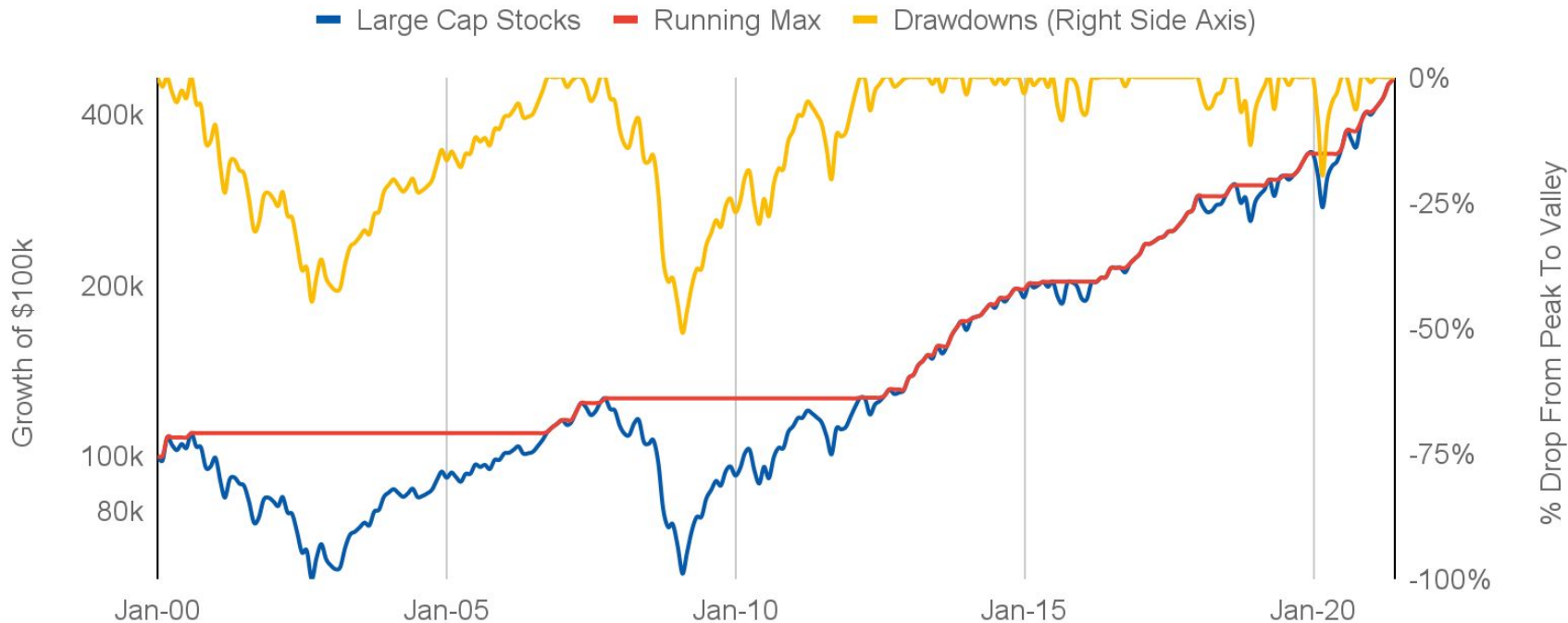
**AGILITY CAPITAL**



# #1: A brief illustration of some investing terms.

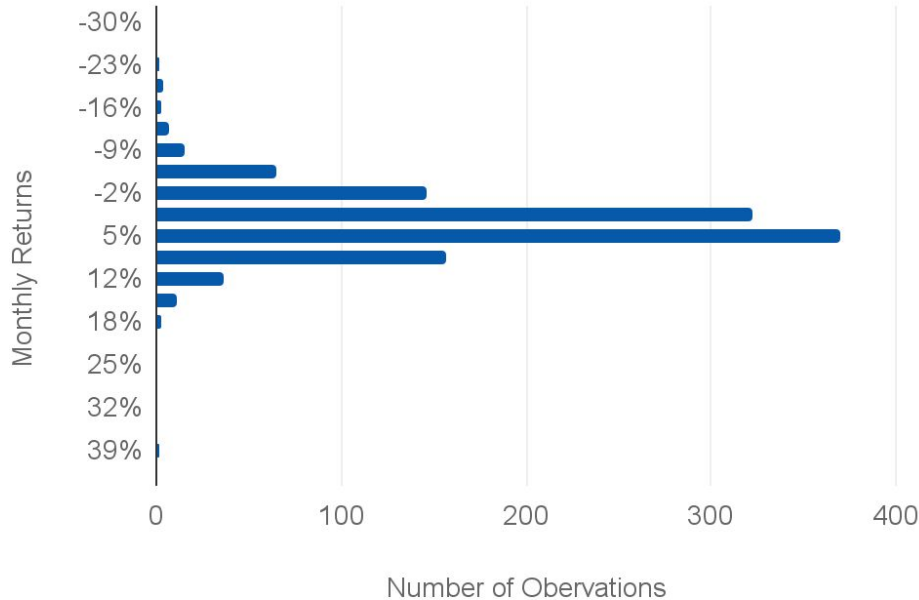
# WHAT IS A DRAWDOWN?

Large Cap Stocks - Growth and Drawdowns

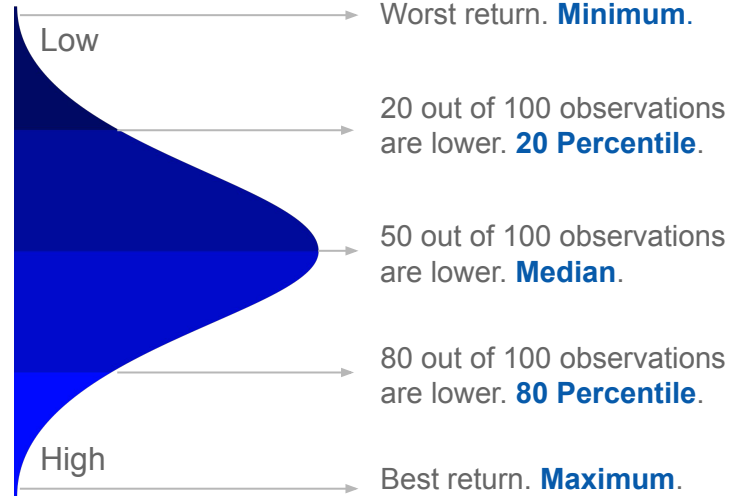


# WHAT DOES 20 PERCENTILE MEAN?

Large Cap Stocks - Summary of 1,146 Monthly Returns



Distribution of Returns





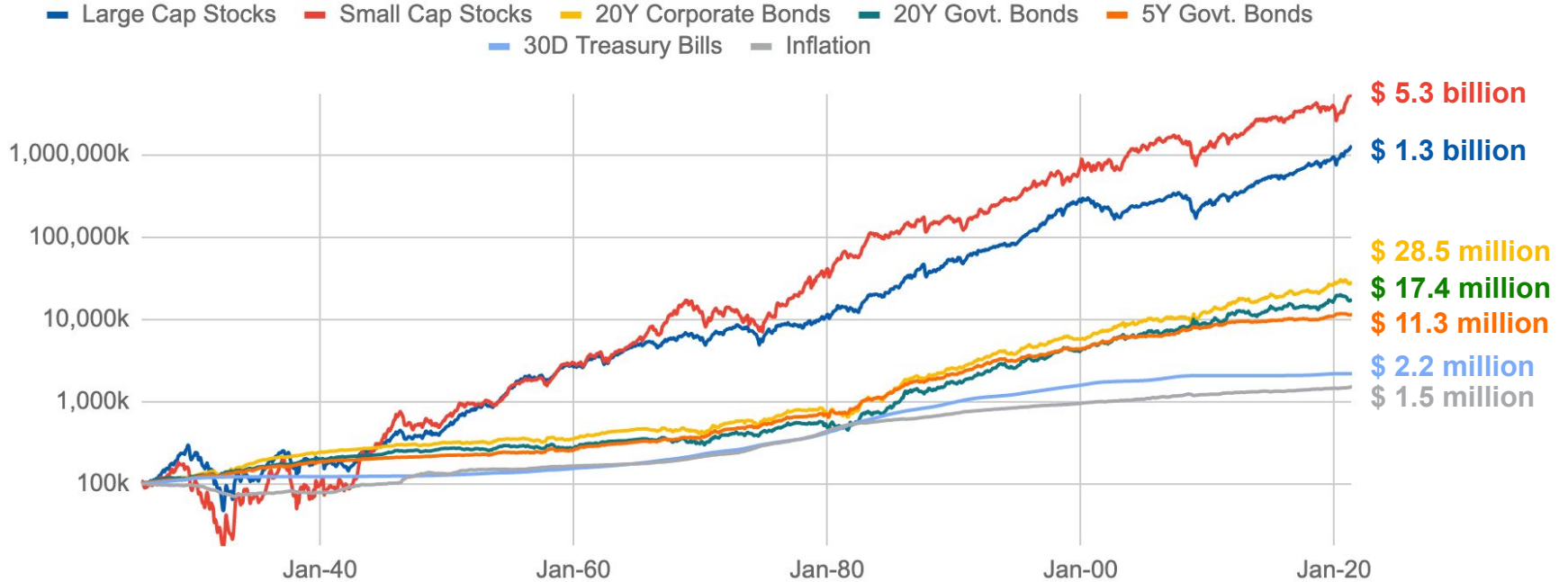
## #2: Why invest or trade anything at all?

Investing is about postponing consuming your money now, so that it can work and grow into higher wealth for you in the future.

It is also about growing your money faster than inflation, so that your purchasing power in the future is higher.

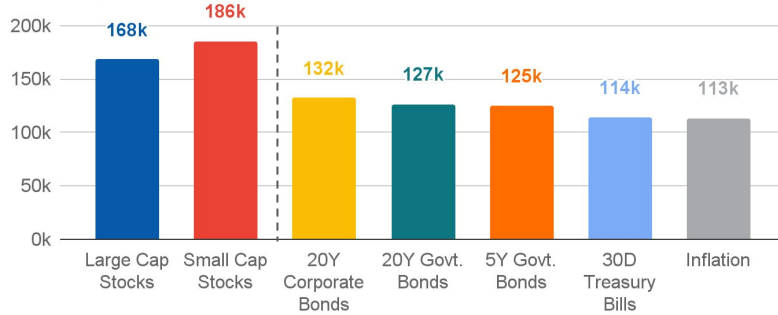
# STOCKS HAVE GENERATED SIGNIFICANT WEALTH OVER LONG TIME FRAMES

Growth of US\$ 100k Over 96 Years In US Assets



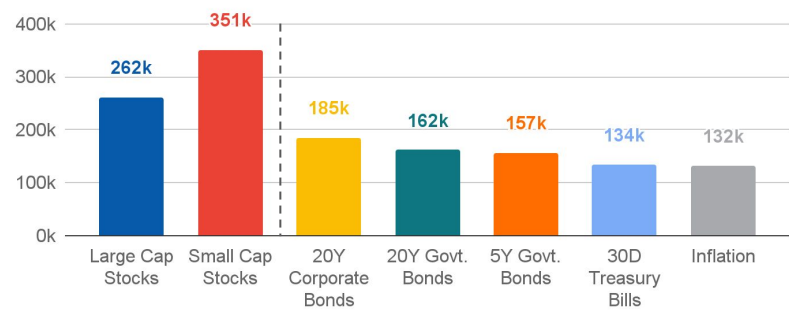
# STOCKS HAVE GENERATED SUBSTANTIAL WEALTH IN OTHER TIME FRAMES TOO

5Y Rolling Window - Median Final Wealth For US\$ 100k Invested



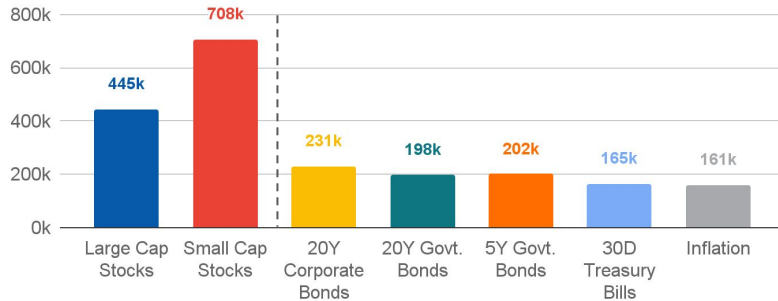
1,087 5Y Periods

10Y Rolling Window



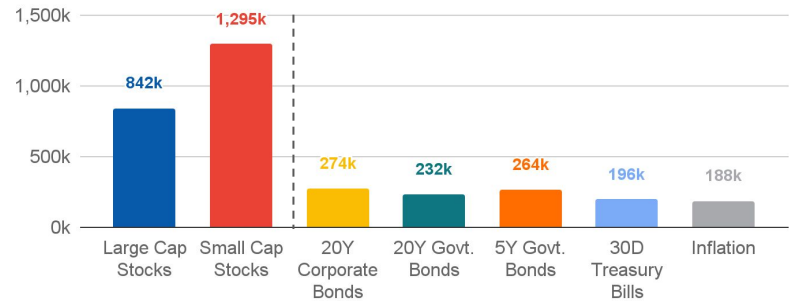
1,027 10Y Periods

15Y Rolling Window



967 15Y Periods

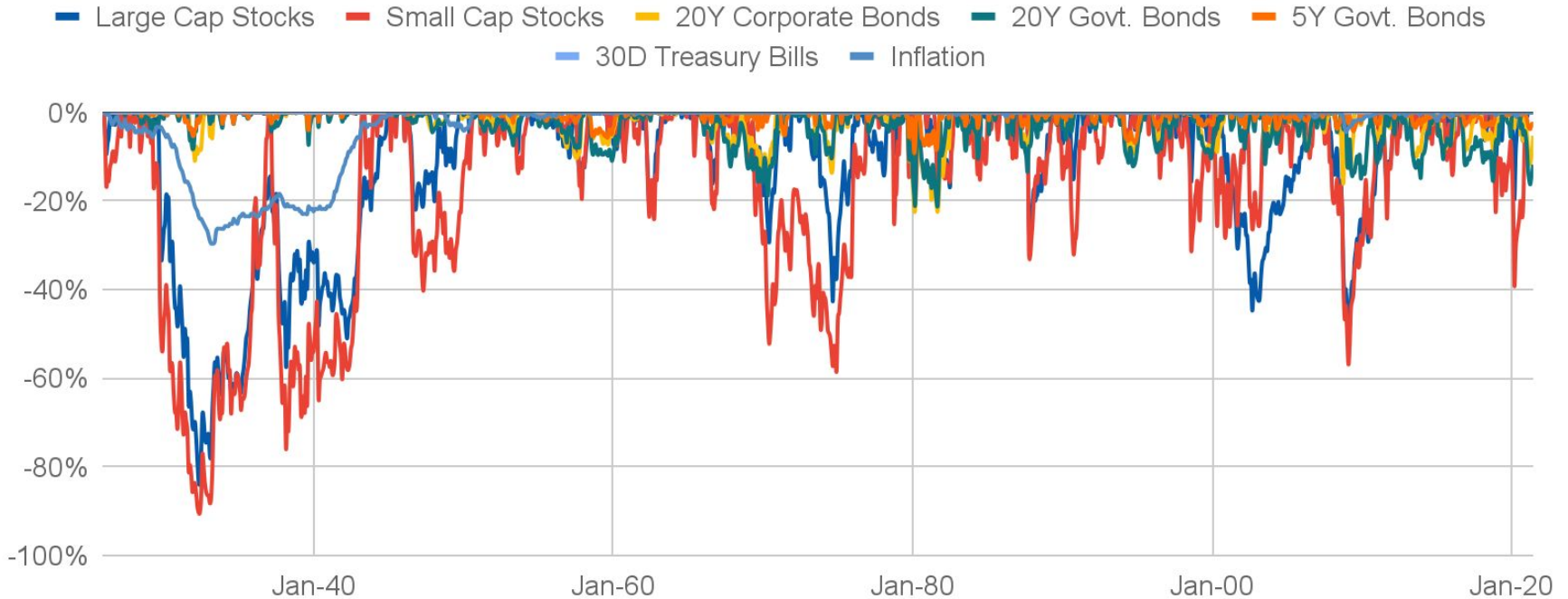
20Y Rolling Window



907 20Y Periods

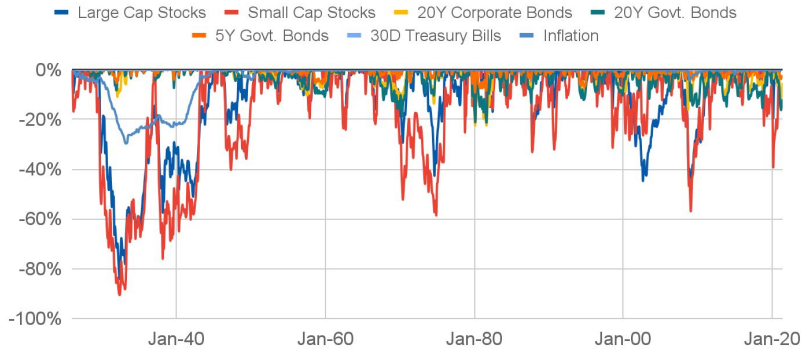
## BUT STOCKS HAVE ALSO POSTED **OUTSIZED DECLINES** AT CERTAIN TIMES

### Drawdowns Over 96 Years

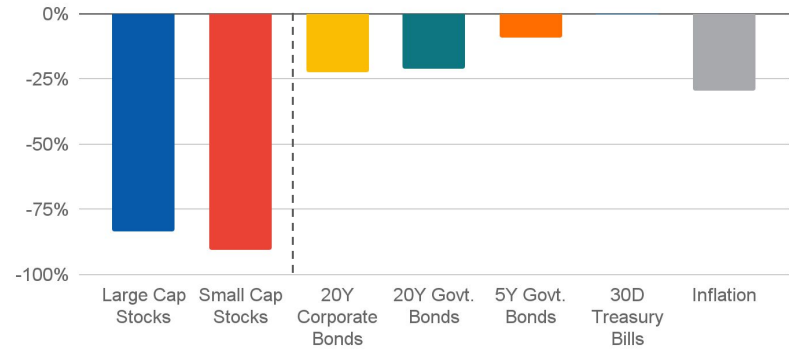


# HERE IS A CLOSER LOOK AT THE WORST DECLINES SEEN IN STOCKS

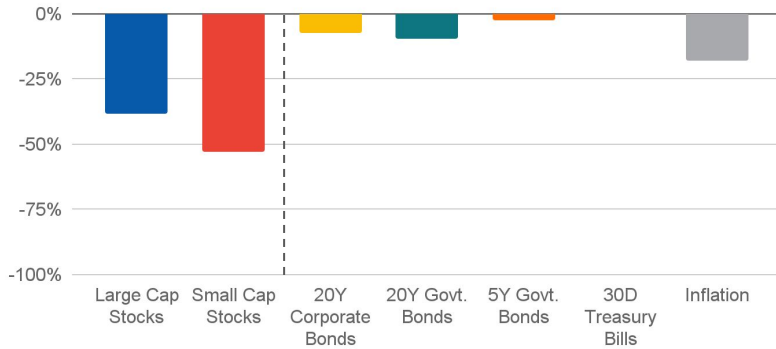
Drawdowns Over 96 Years



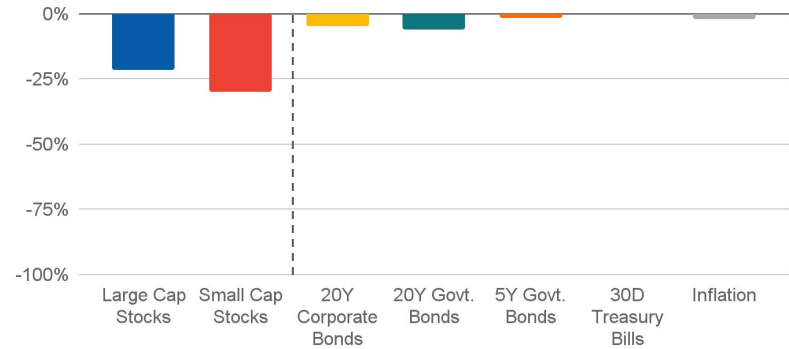
Maximum Drawdown



10 Percentile Drawdown



20 Percentile Drawdown



Source: Morningstar

How do you capture the outstanding wealth generation from stocks and not suffer permanent loss of your money?

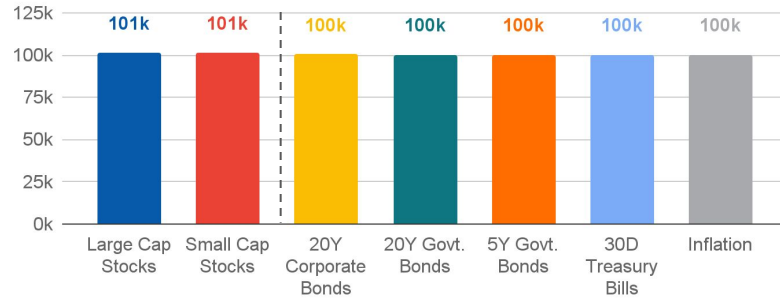
#3: Maybe we should buy stocks, but only for **short** periods to avoid these big drawdowns.

*Does this work?*



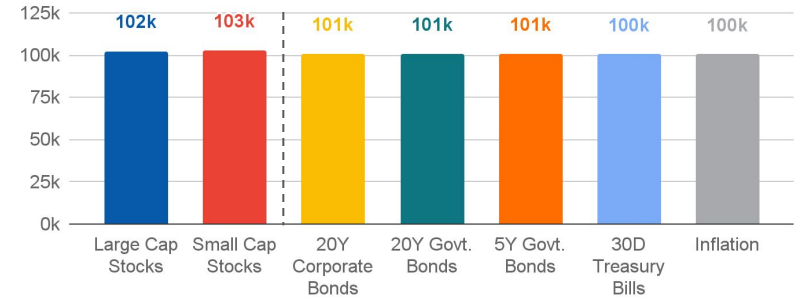
# STOCKS HAVE NOT GENERATED SUBSTANTIAL WEALTH OVER SHORT TIME FRAMES

1M Rolling Window - Median Final Wealth For US\$ 100k Invested



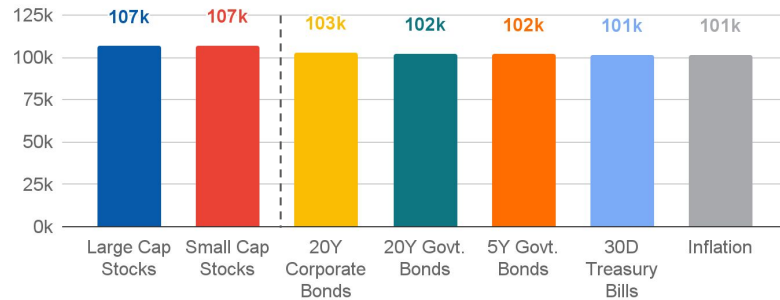
1,146 1M Periods

3M Rolling Window



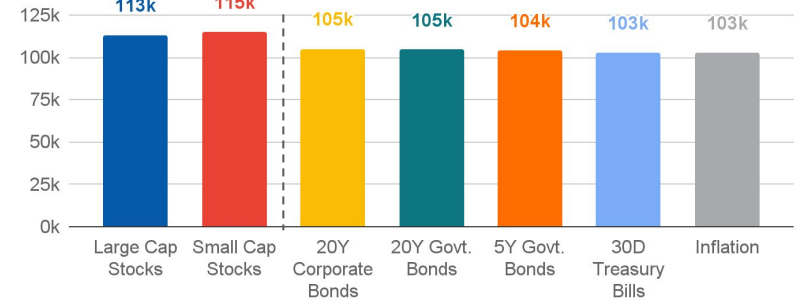
1,145 3M Periods

6M Rolling Window



1,141 6M Periods

12M Rolling Window

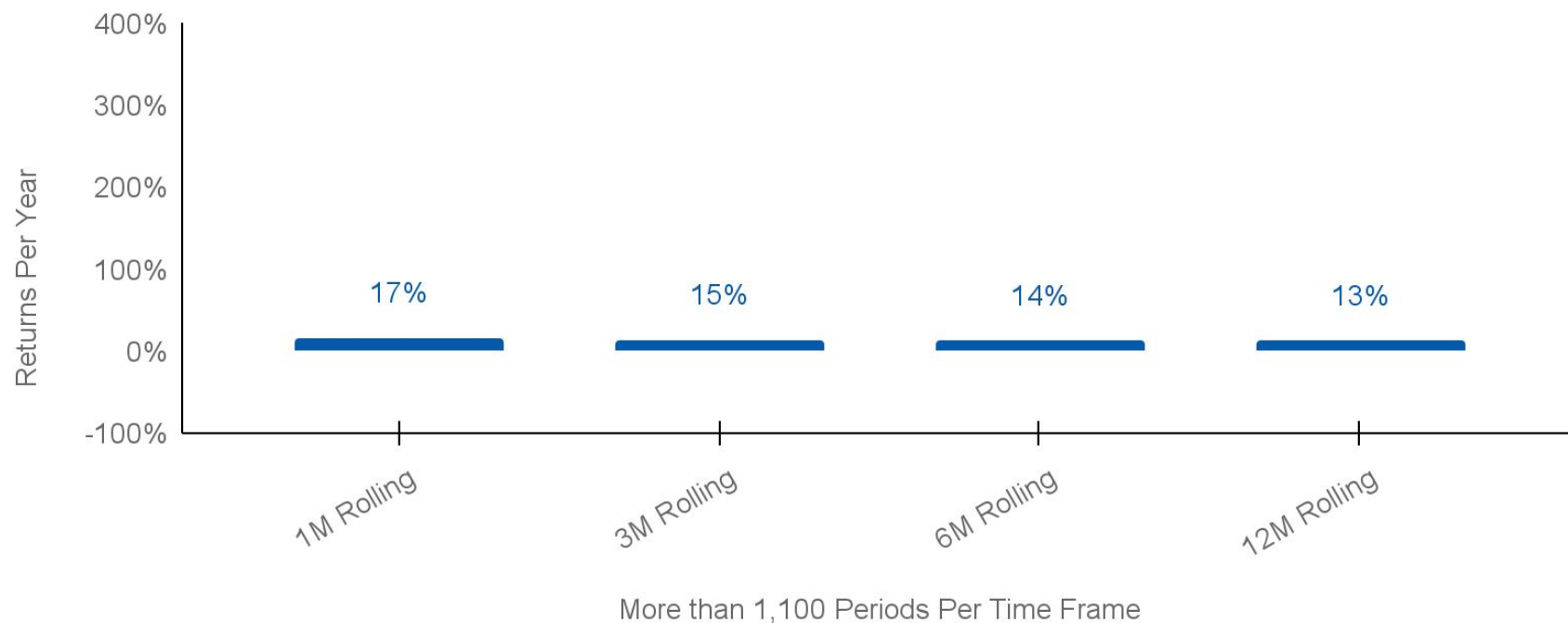


1,135 12M Periods

Source: Morningstar

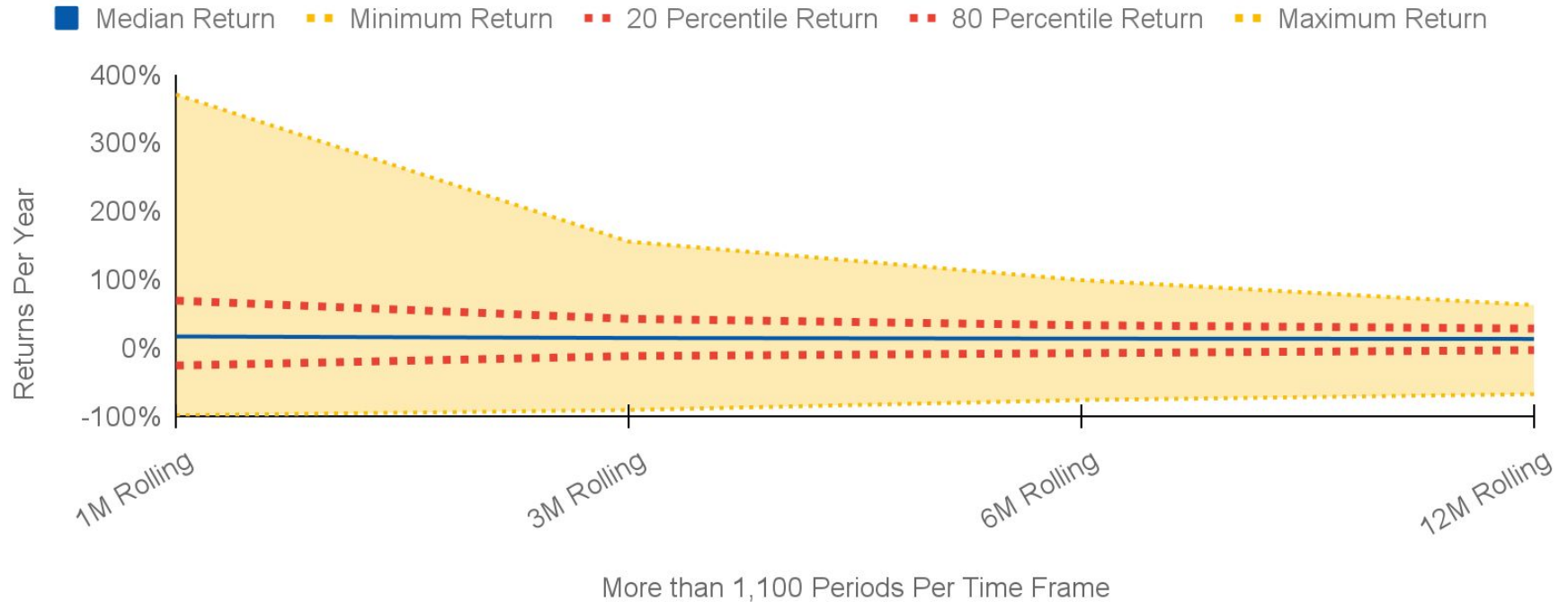
## LARGE CAP STOCKS - SIMILAR RETURNS OVER VARIOUS SHORT TIME FRAMES

Median Returns - Annualized For Comparison Across Time Frames



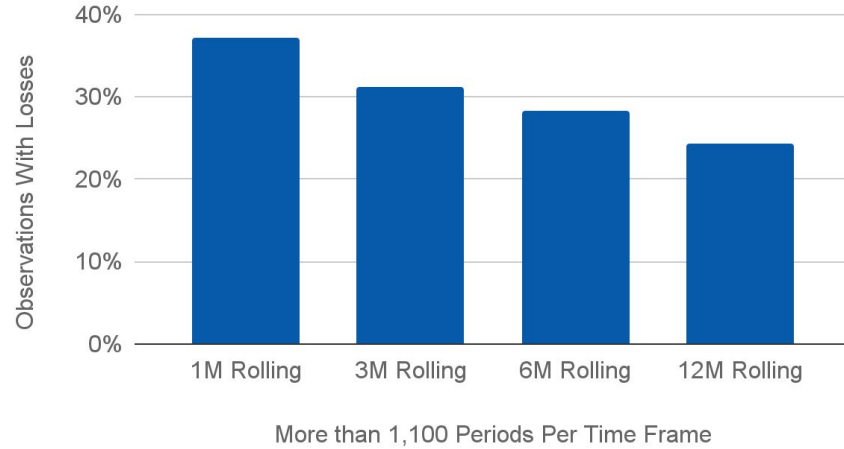
# LARGE CAP STOCKS - SUBSTANTIAL VARIABILITY OF RETURNS OVER SHORT TIME FRAMES

## Range of Returns

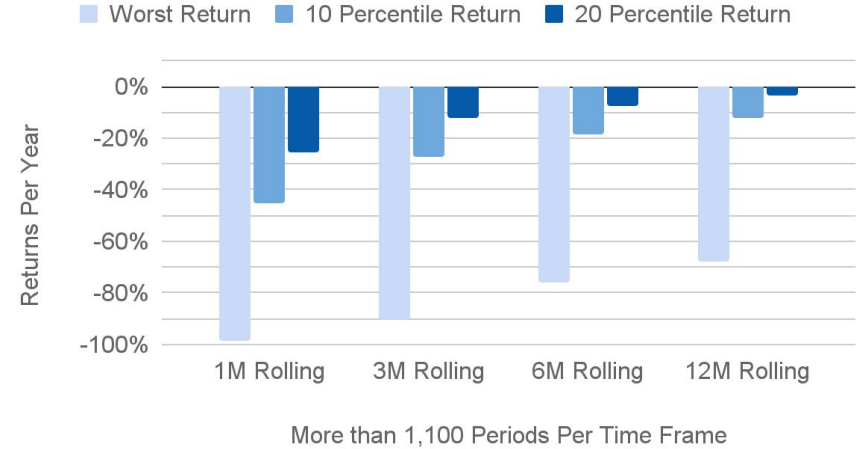


# LARGE CAP STOCKS - POOR SUCCESS RATES OVER SHORT TIME FRAMES

## Frequency of Losses

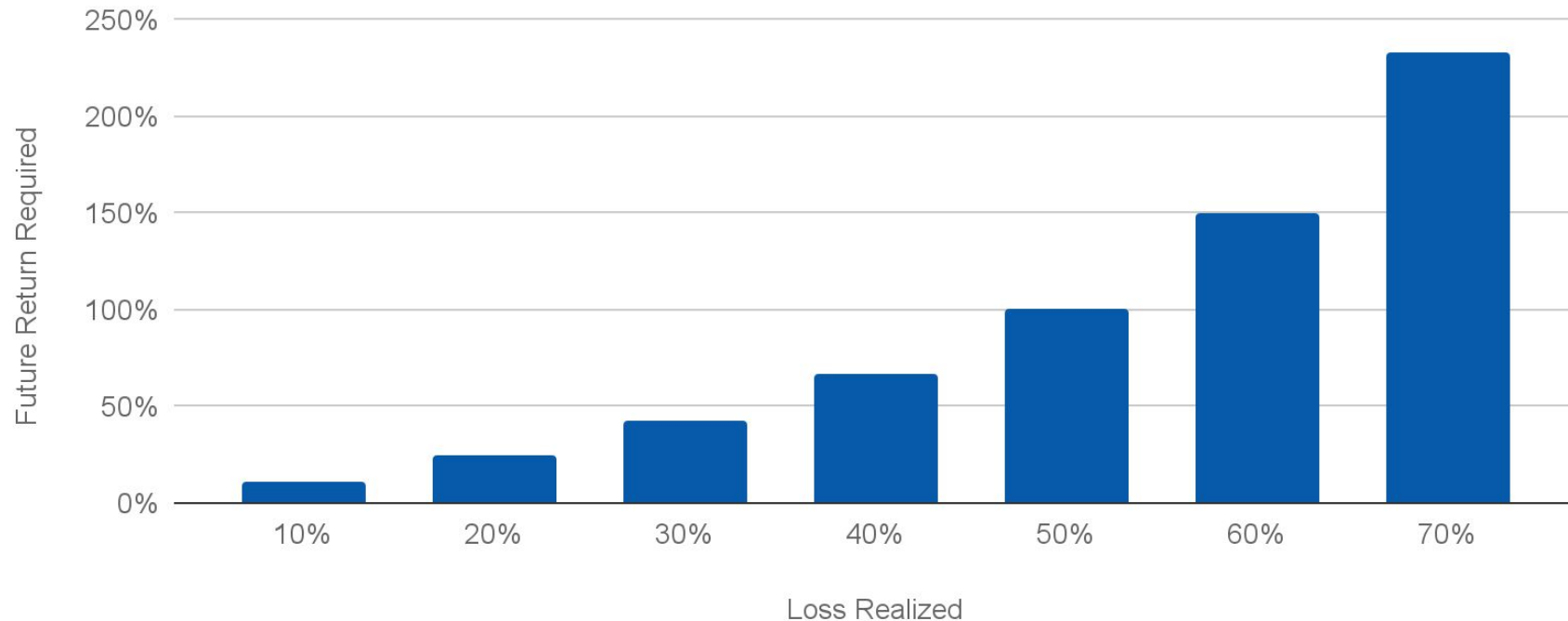


## Size of Worst Losses



## AVOIDING PERMANENT LOSSES CAN BE **MORE IMPORTANT** THAN CHASING BIG WINS

Future Return Required to Break Even After a Big Loss



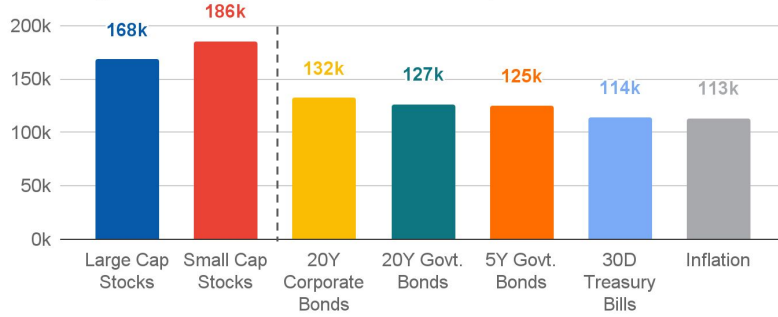
Source: GFM illustration

#4: What if we invest for **long** periods?

*Does this work?*

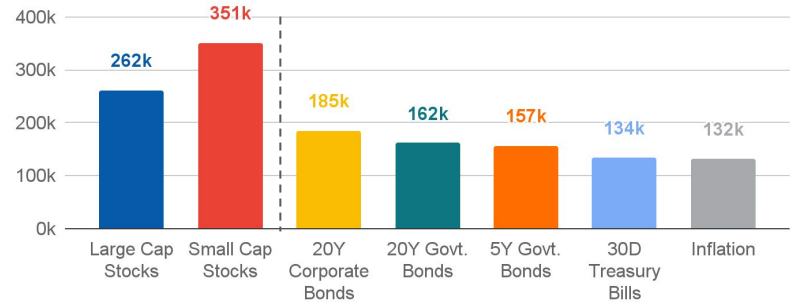
# STOCKS DO GENERATE SUBSTANTIAL WEALTH OVER LONG TIME FRAMES

5Y Rolling Window - Median Final Wealth For US\$ 100k Invested



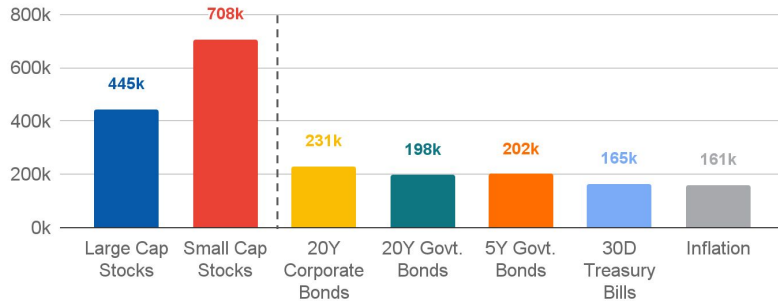
1,087 5Y Periods

10Y Rolling Window



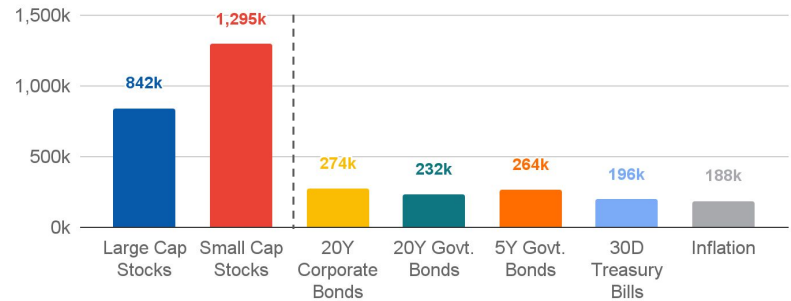
1,027 10Y Periods

15Y Rolling Window



967 15Y Periods

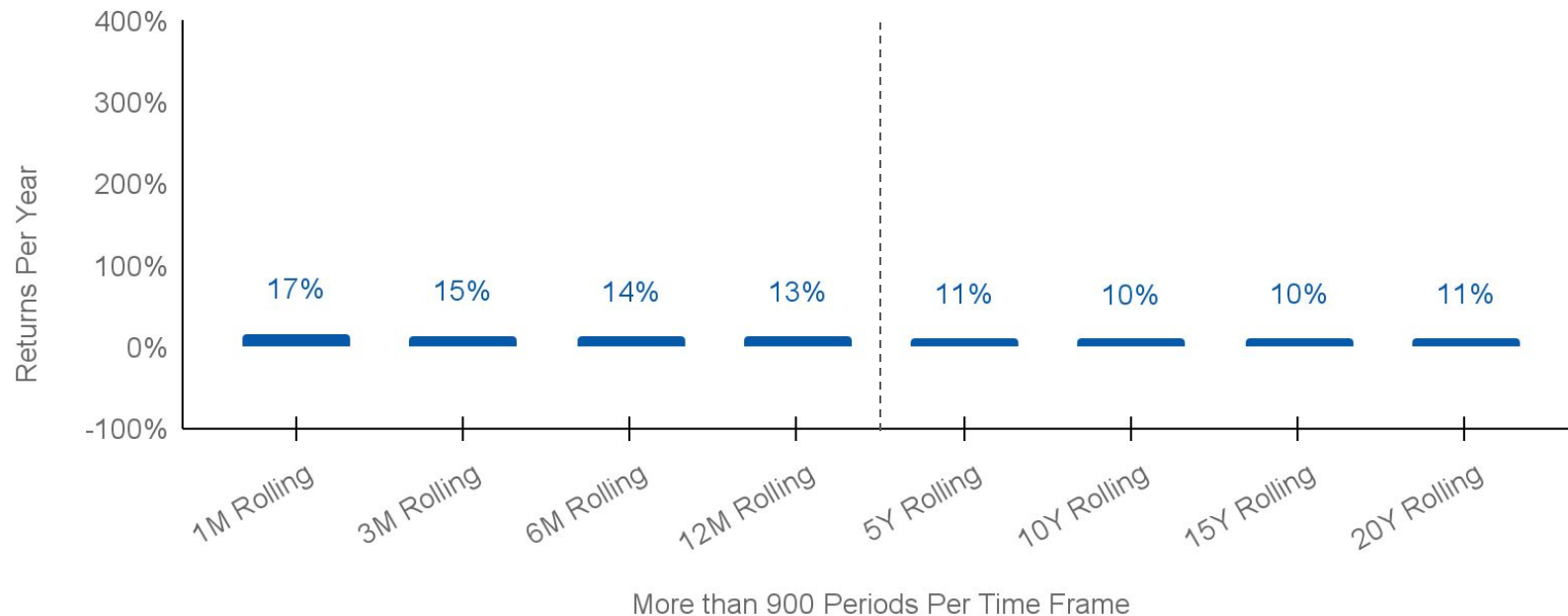
20Y Rolling Window



907 20Y Periods

## LARGE CAP STOCKS - SIMILAR RETURNS OVER SHORT OR LONG TIME FRAMES

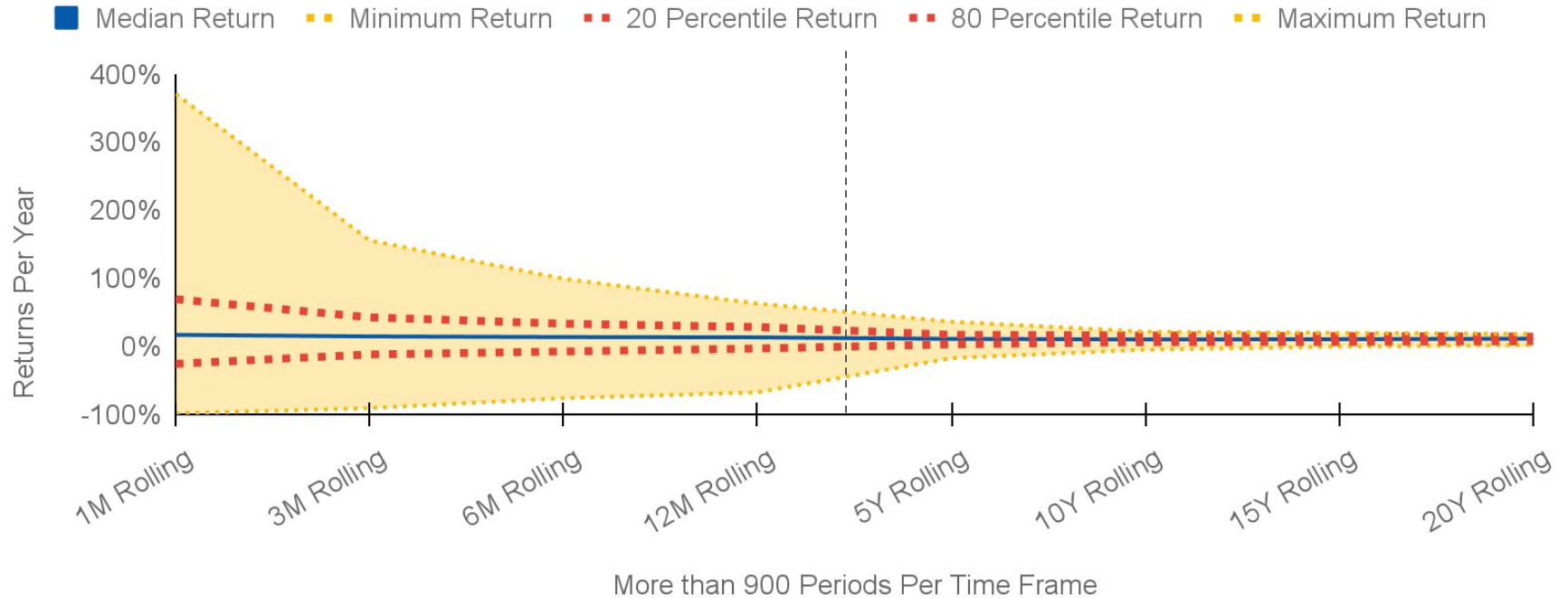
Median Returns - Annualized For Comparison Across Time Frames





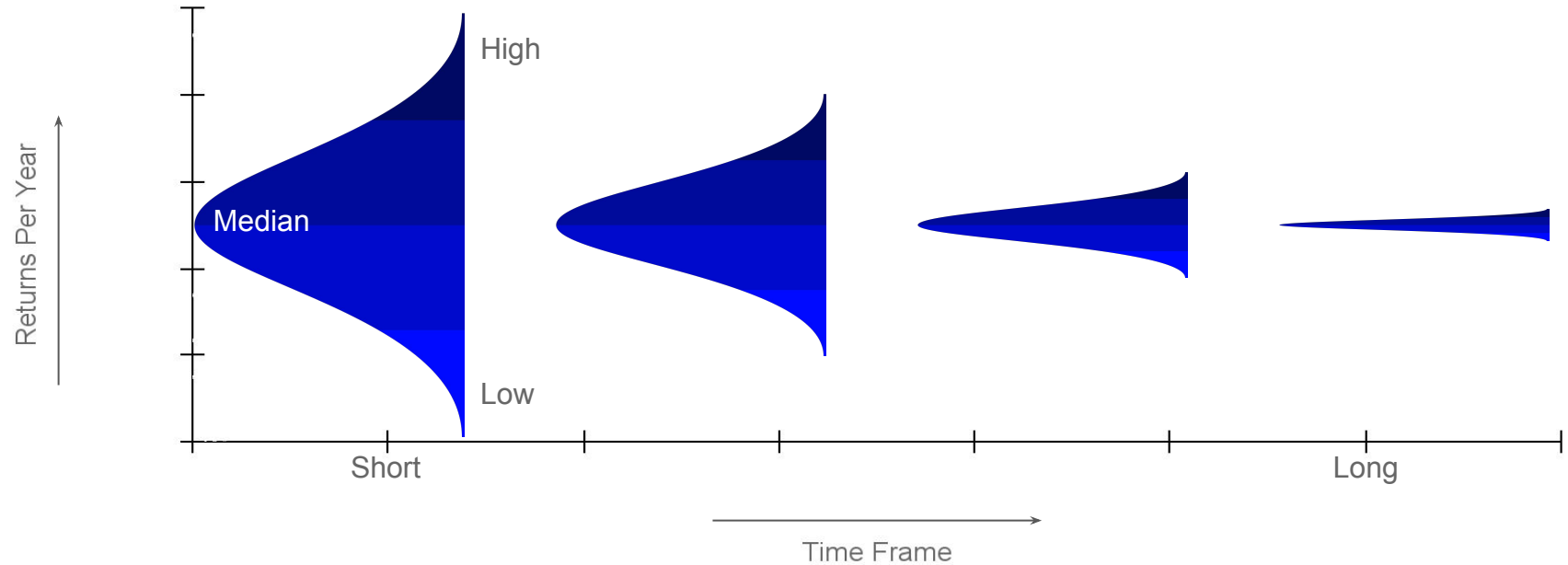
# LARGE CAP STOCKS - CONSISTENT RESULTS OVER LONG TIME FRAMES

## Range of Returns



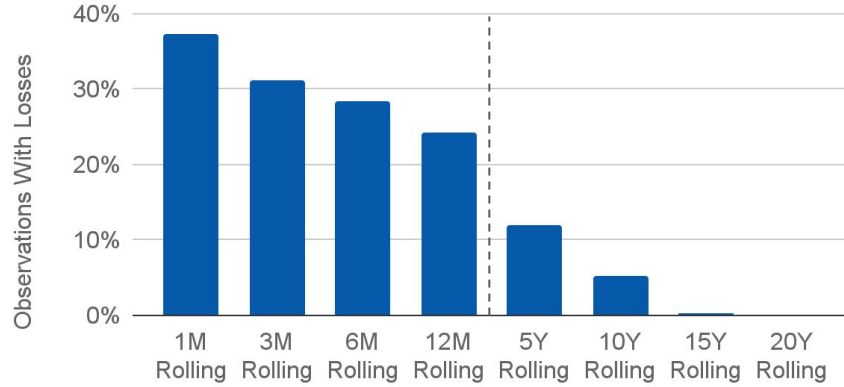
# LARGE CAP STOCKS - CONSISTENT RESULTS OVER LONG TIME FRAMES

Range of Returns



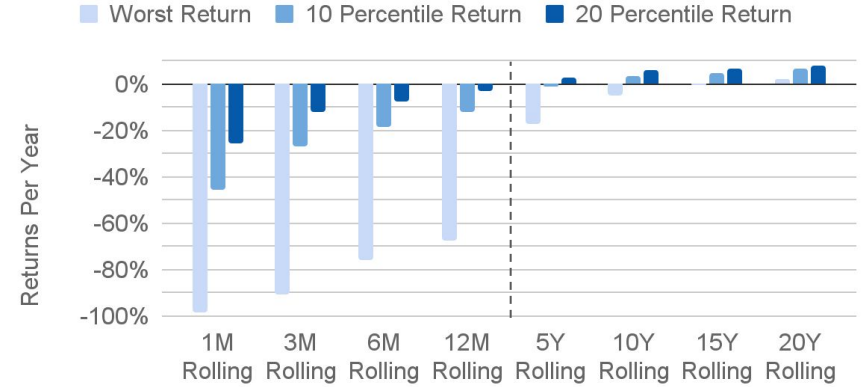
# LARGE CAP STOCKS - HIGH SUCCESS RATES OVER LONG TIME FRAMES

Frequency of Losses



More than 900 Periods Per Category

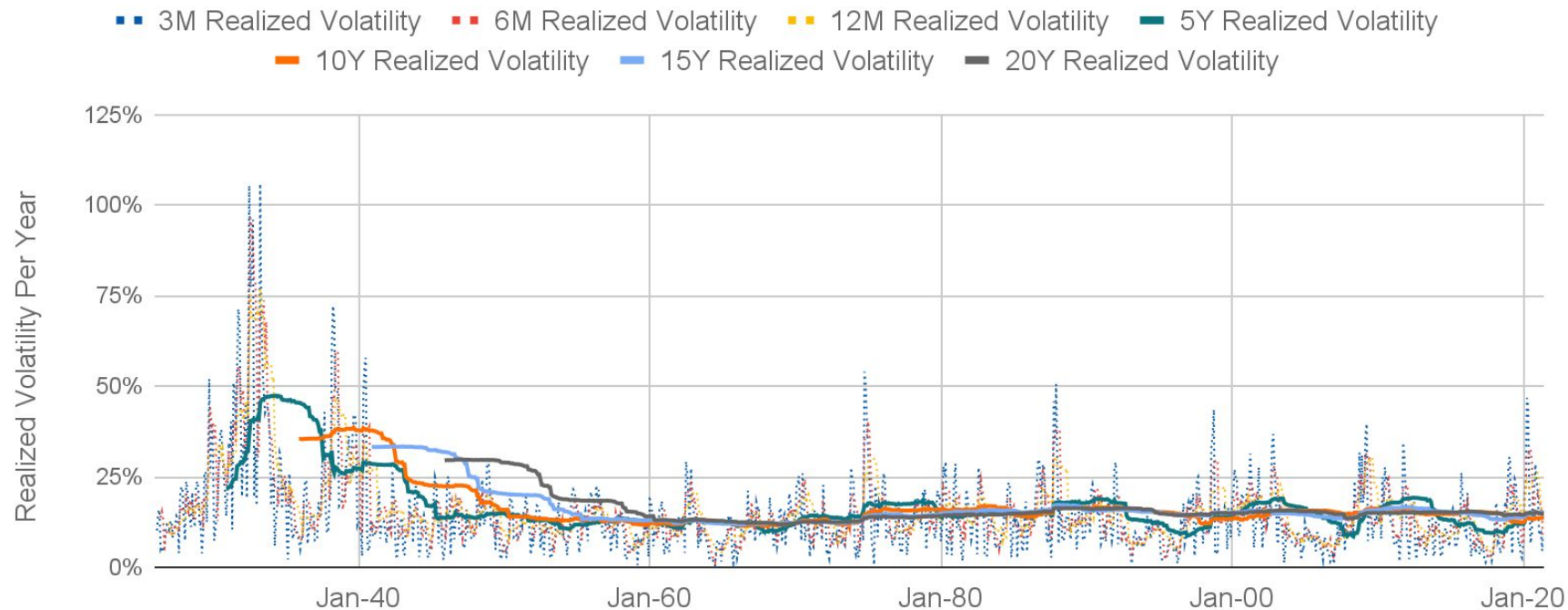
Size of Worst Losses



More than 900 Periods Per Category

# VOLATILITY DROPS OVER LONG TIME FRAMES

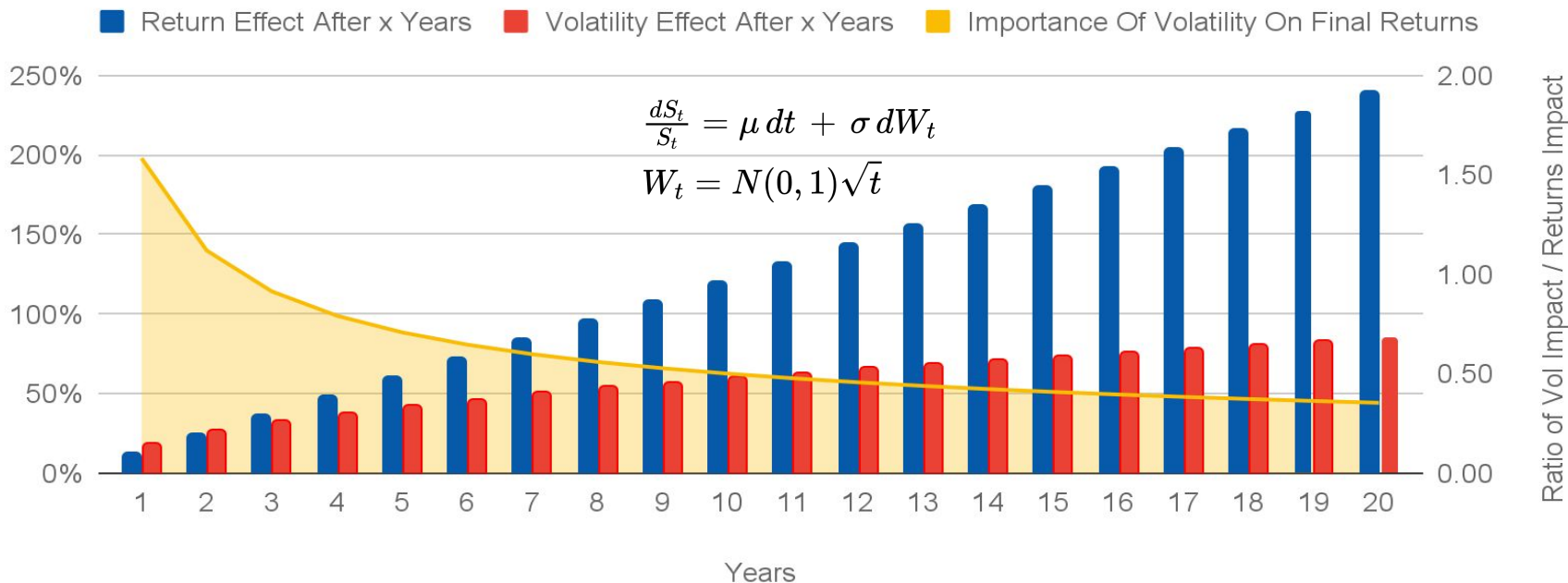
Volatility Over Different Time Frames



Source: Morningstar

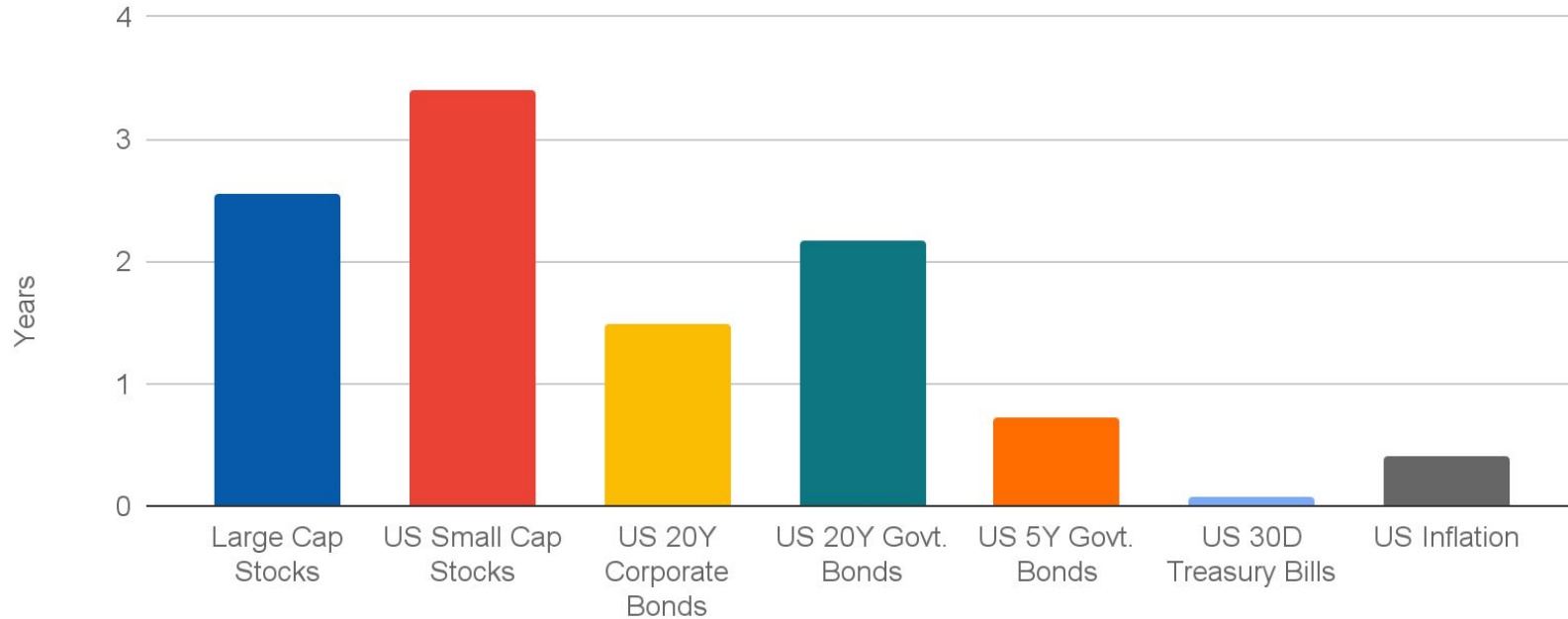
## IMPORTANCE OF VOLATILITY ON PERFORMANCE ALSO DROPS OVER LONG TIME FRAMES

Return Scales With Time, Volatility Scales With Square-root Of Time



## TIME FRAME **NEEDED** TO SEE TRUE RETURNS AS VOLATILITY IMPACT DROPS

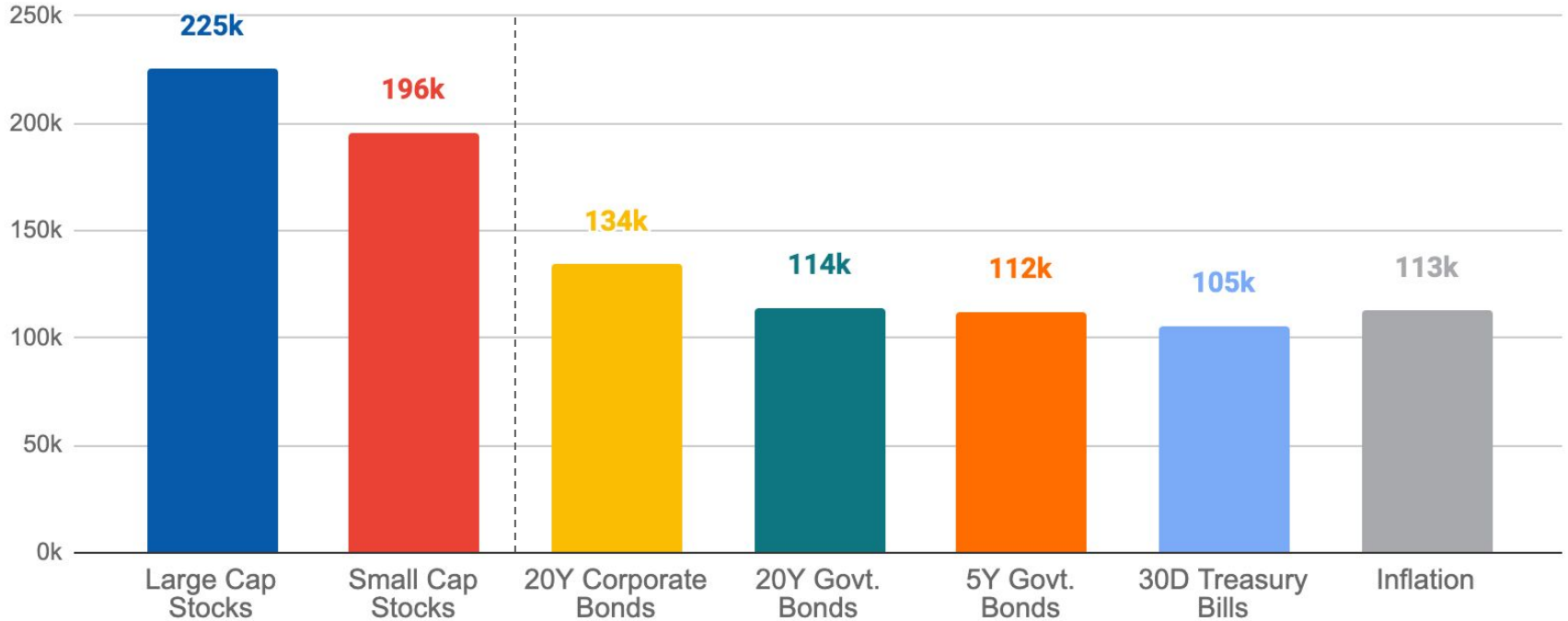
Time For Expected Returns to Start Dominating And Volatility Impact to Start Diminishing



#5: **Stock investments** can be exceptional when compared to **index investments** over long time frames, *if you know what you are doing.*

## GROWTH OF US\$100k IN THE LAST 5 YEARS

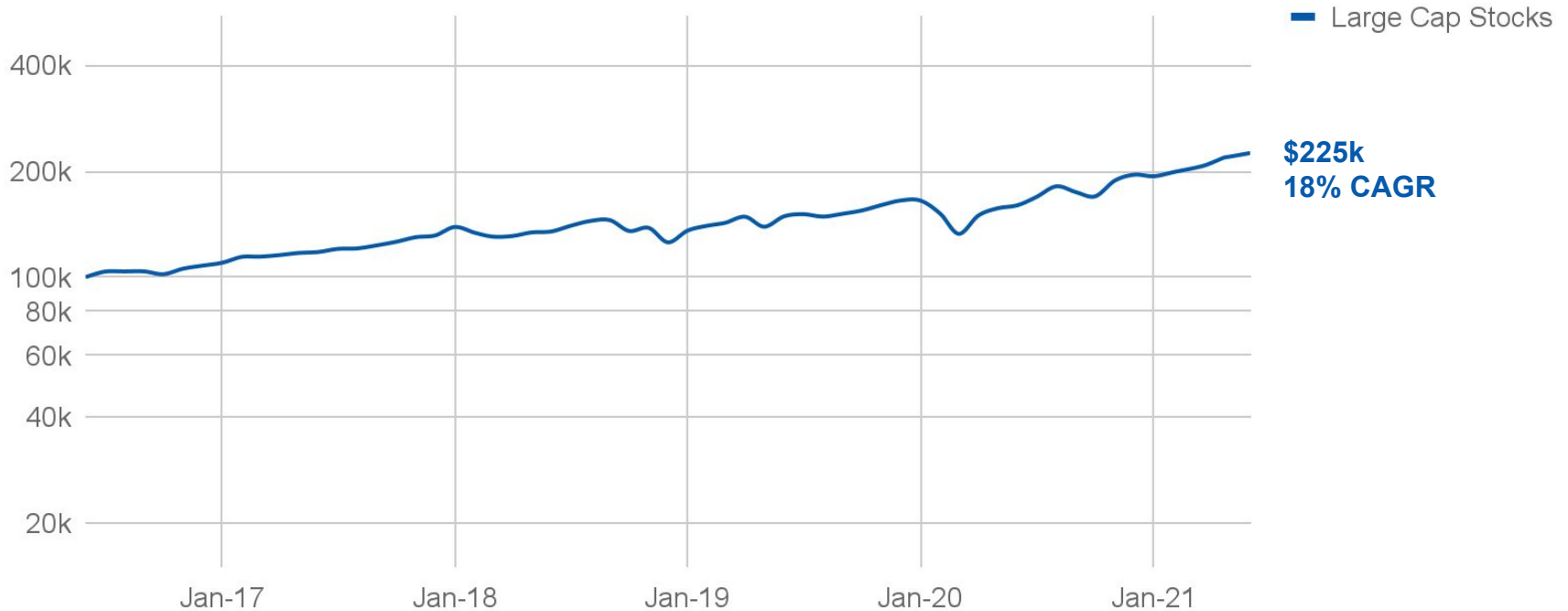
5 Year Period Ending in June 2021





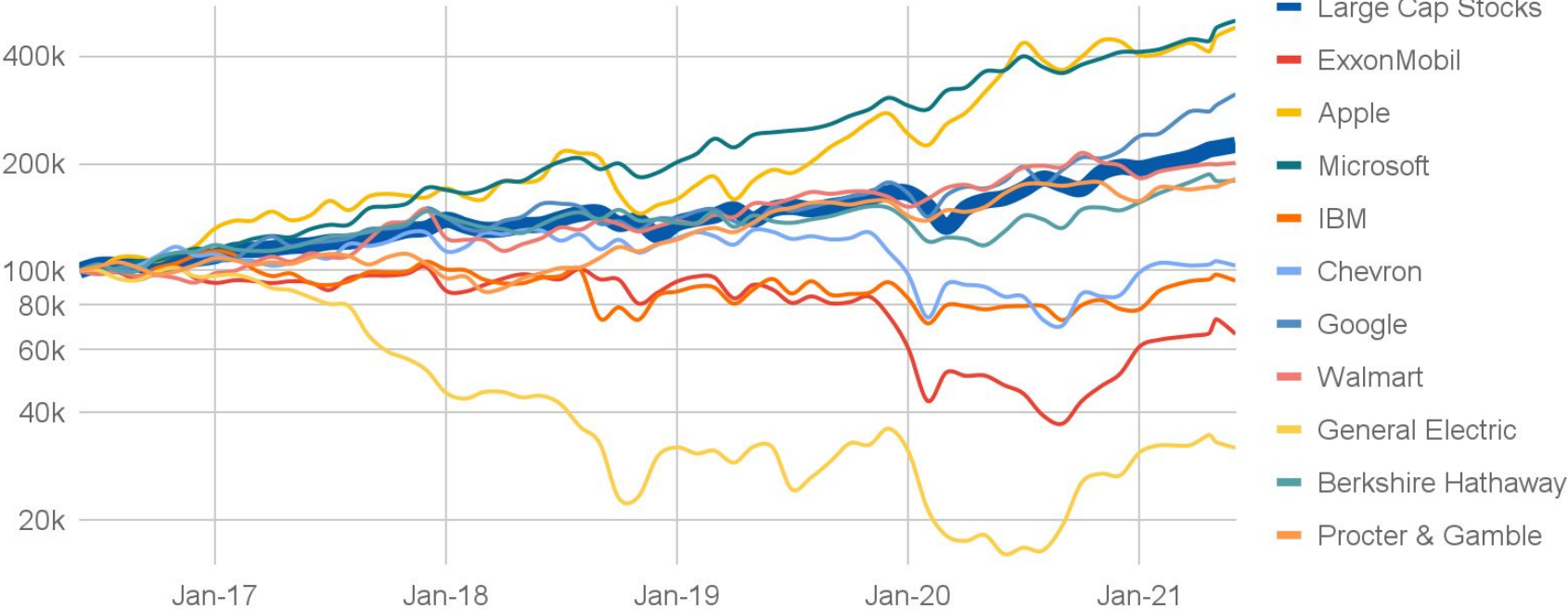
## GROWTH OF LARGE CAP STOCKS IN THIS PERIOD

Growth of US\$ 100k Over 5 Years In Large Cap Stocks



# EVEN THE BEST PERFORMING INDEX CAN CONTAIN BIG WINNERS AND BIG LOSERS

Growth of US\$ 100k Over 5 Years: Index vs. It's Biggest Holdings



Source: Morningstar, Yahoo Finance  
Note: Index Total Return, Stocks Price Return



## A BRIEF LOOK AT TWO OF THE INDEX'S BIGGEST HOLDINGS



**ExxonMobil**

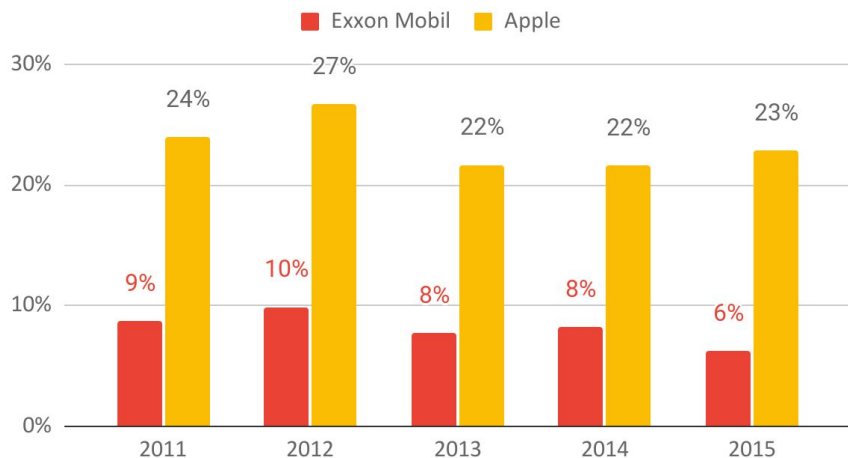
$$\frac{dS_t}{S_t} = \mu dt + \sigma dW_t$$
$$W_t = N(0, 1)\sqrt{t}$$

Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

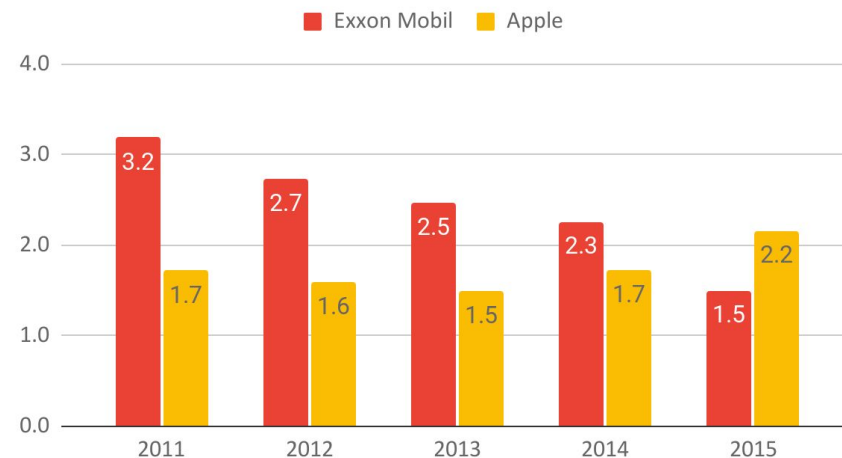
## WHAT AN OWNER-INVESTOR WOULD HAVE SEEN IN 2016

**ROE COMPONENTS:** High **Margins** and stable **Efficiency** spotlight Apple as a great business. Exxon Mobil's profitability has been deteriorating fast.

Net Margin (Net Income / Revenue)



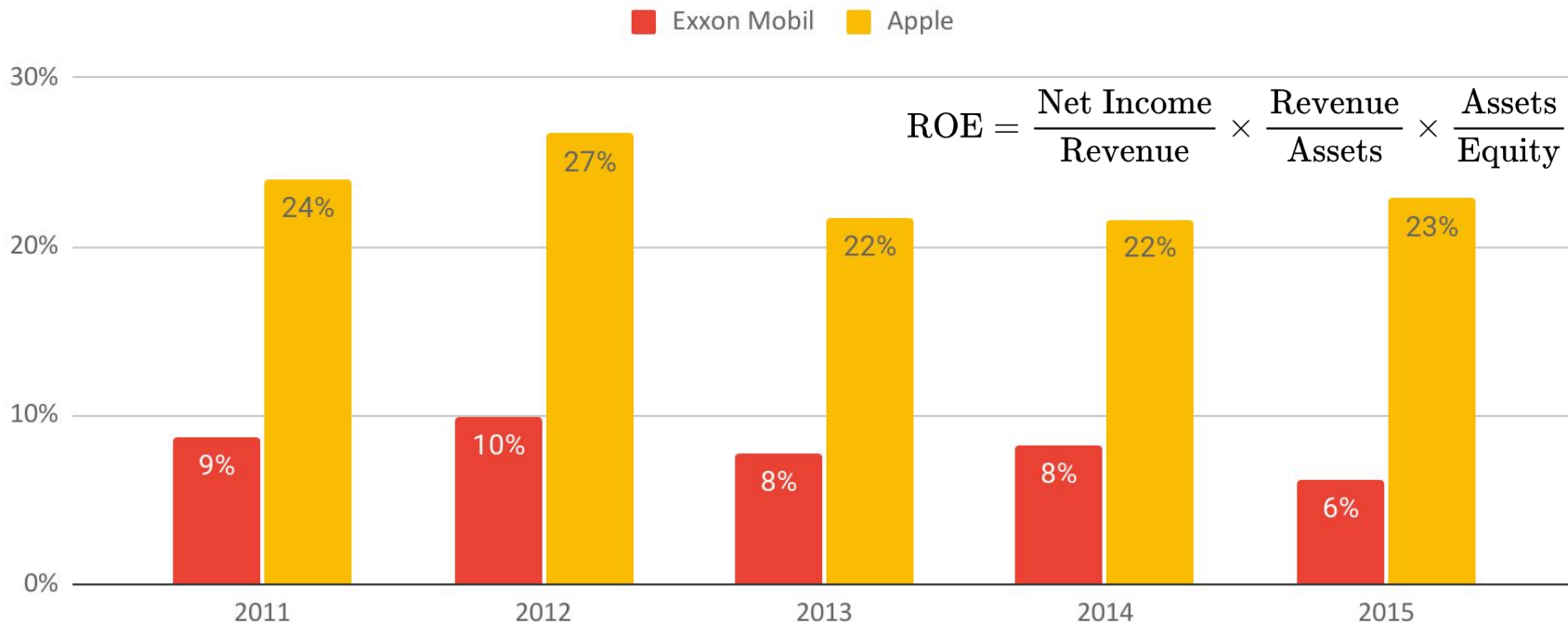
Efficiency (Revenue / Equity)



Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

## APPLE'S BOOK VALUE CAN DOUBLE EVERY 3-4 YEARS VS. EXXON MOBIL'S 7-12 YEARS

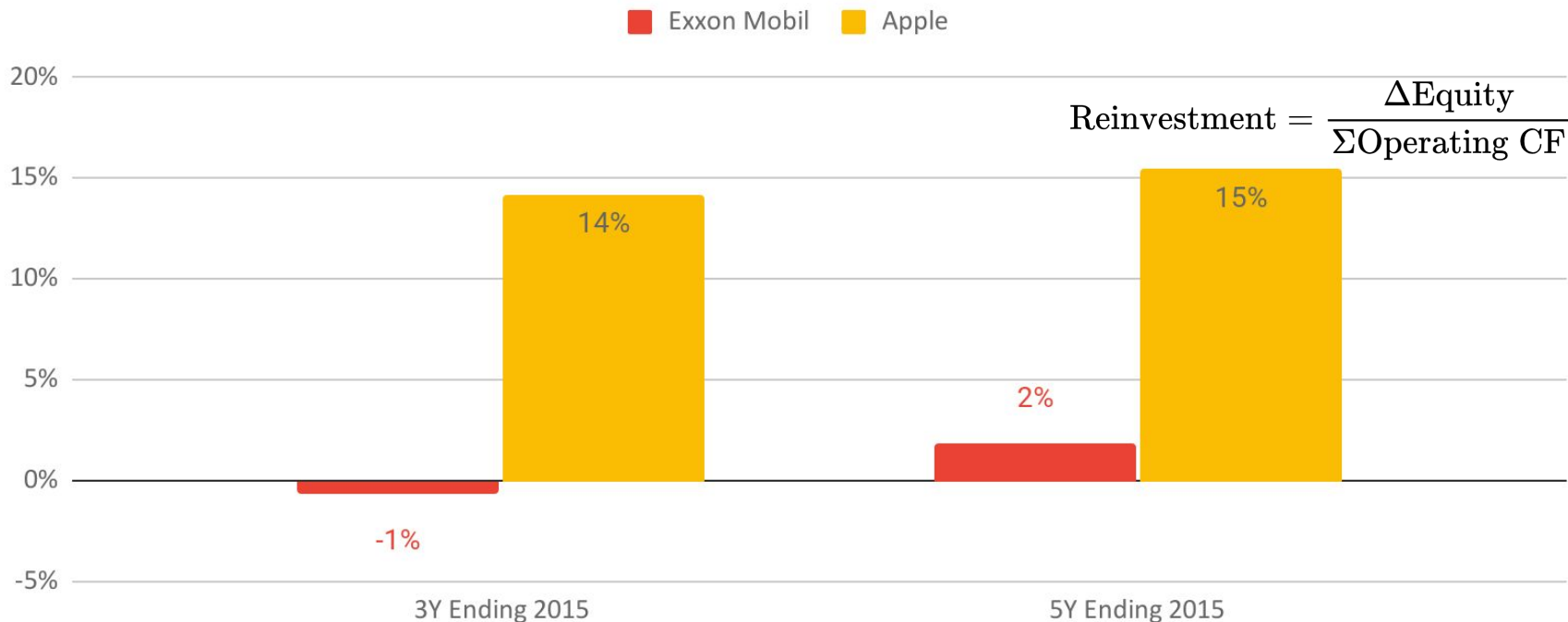
Return on Equity



Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

## APPLE WAS SELECTIVELY RE-INVESTING BACK INTO THE BUSINESS

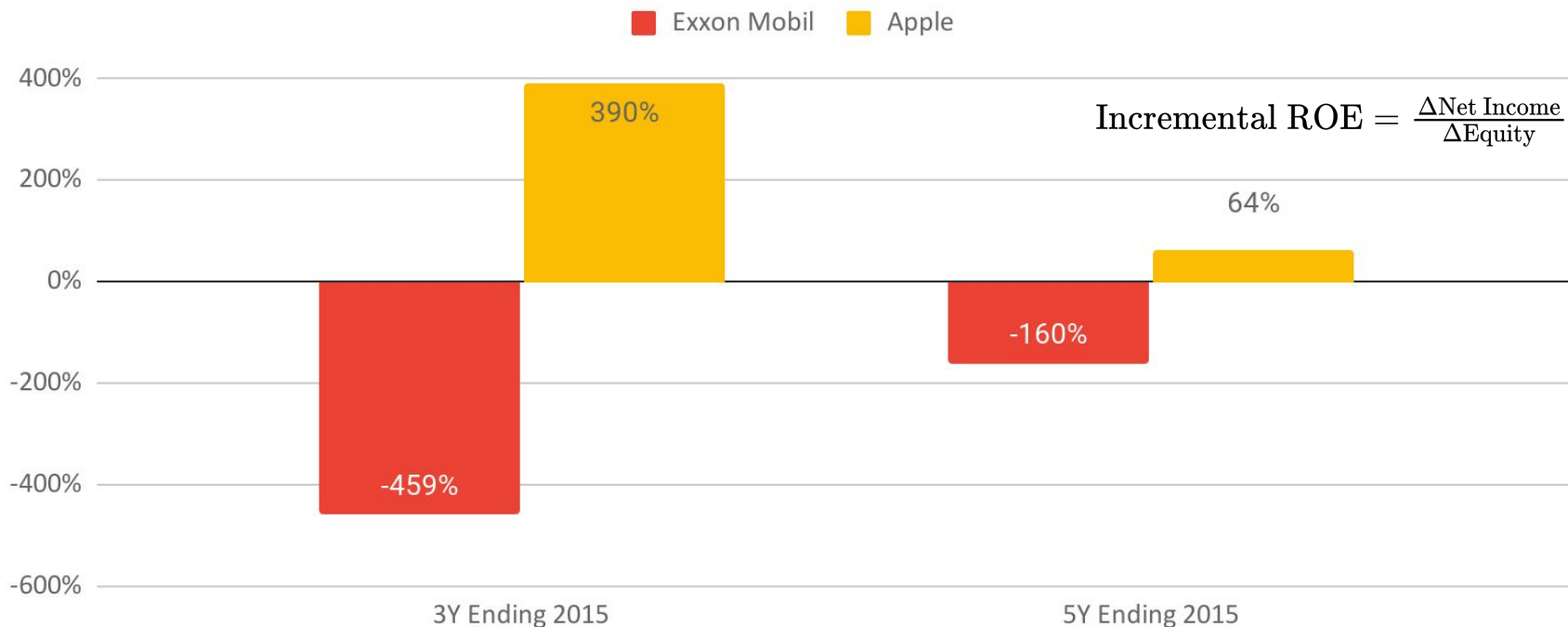
Reinvestment Rate



Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

## APPLE'S FRESH INVESTMENTS WERE VERY SUCCESSFUL, INDICATING A BRIGHT FUTURE

Incremental Return on Equity

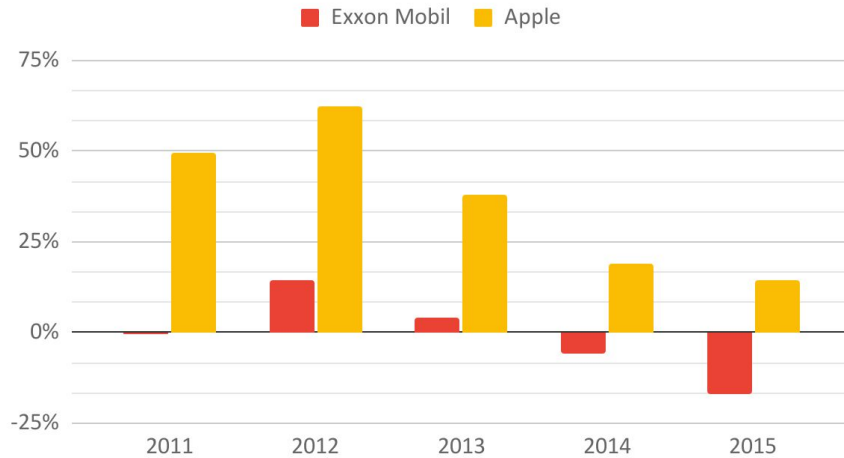


Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

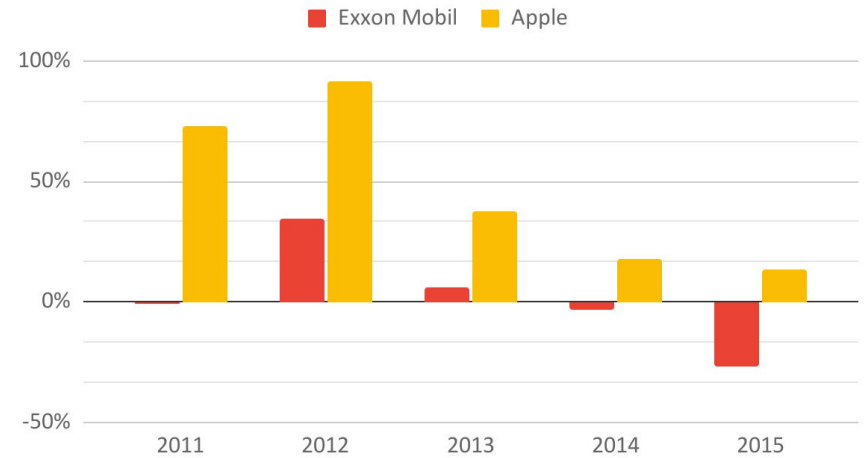
# APPLE'S SUCCESSFUL NEW INVESTMENTS WAS FUELING GROWTH

**GROWTH:** Successful reinvestments becomes more visible as top- and bottom-line growth.

3-Year Average Revenue Growth



3-Year Average EPS Growth

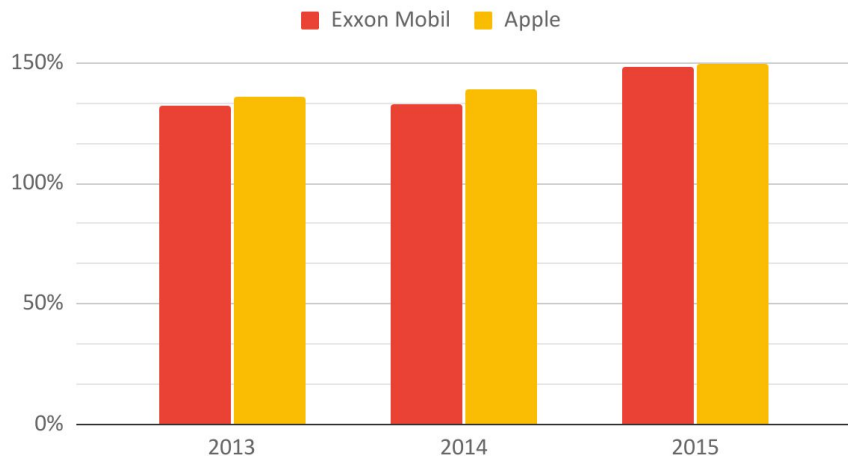


Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

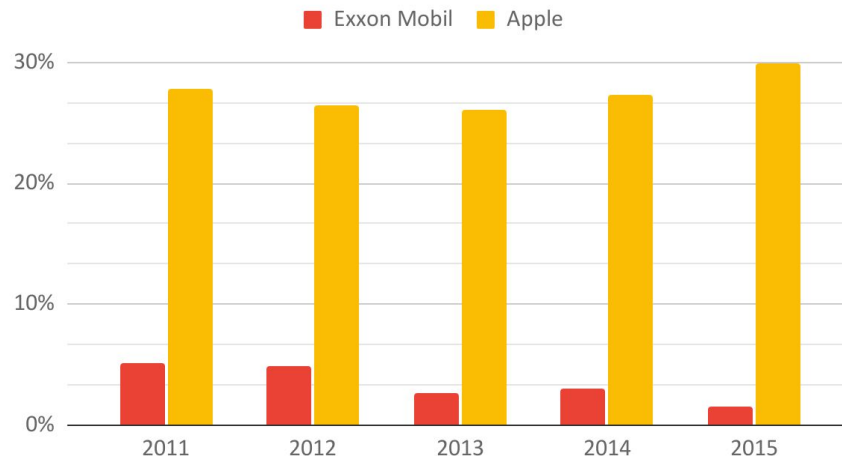


# APPLE'S CASH RETENTION WAS HUGE, INDICATING STRONG CAPABILITY FOR REINVESTMENT OR RETURN OF CAPITAL TO SHAREHOLDERS

Cash Conversion: 3-Year Operating Cash Flow / Net Income



Free Cash Flow / Revenue



Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

## COMPARING APPLE AND EXXON MOBIL AS AN OWNER-INVESTOR WOULD HAVE IN 2015

### APPLE

- Outstanding business with 2x higher profitability vs. the global stock market average.
- Was reinvesting cash generated back into the business. Was being very careful here.
- New investments were producing exceptional triple-digit incremental ROE. Further highlighting the quality of capital allocation.
- Visible success with 35% revenue growth and 45% EPS growth in previous 5 years.
- High quality earnings, with stable cash conversion and exceptional FCF generation.

**Summary in 2015: Apple likely to compound.**

### EXXON MOBIL

- Facing serious headwinds with a deteriorating efficiency profile in this commodity business.
- Management was conserving capital by cutting reinvestment. This was the right thing to do.
- Long-gestation new investments were posting negative i-ROE, dragging down overall ROE.
- Dual impact of falling efficiency and negative i-ROE led to negative revenue growth and negative EPS growth.
- Cash conversion was stable, but FCF generation was falling fast.

**Summary in 2015: Exxon Mobil likely to struggle.**

## A BRIEF LOOK AT TWO OF THE INDEX'S BIGGEST HOLDINGS



$$\mu dt = \text{thumbs up icon}$$

**ExxonMobil**

$$\mu dt = \text{thumbs down icon}$$

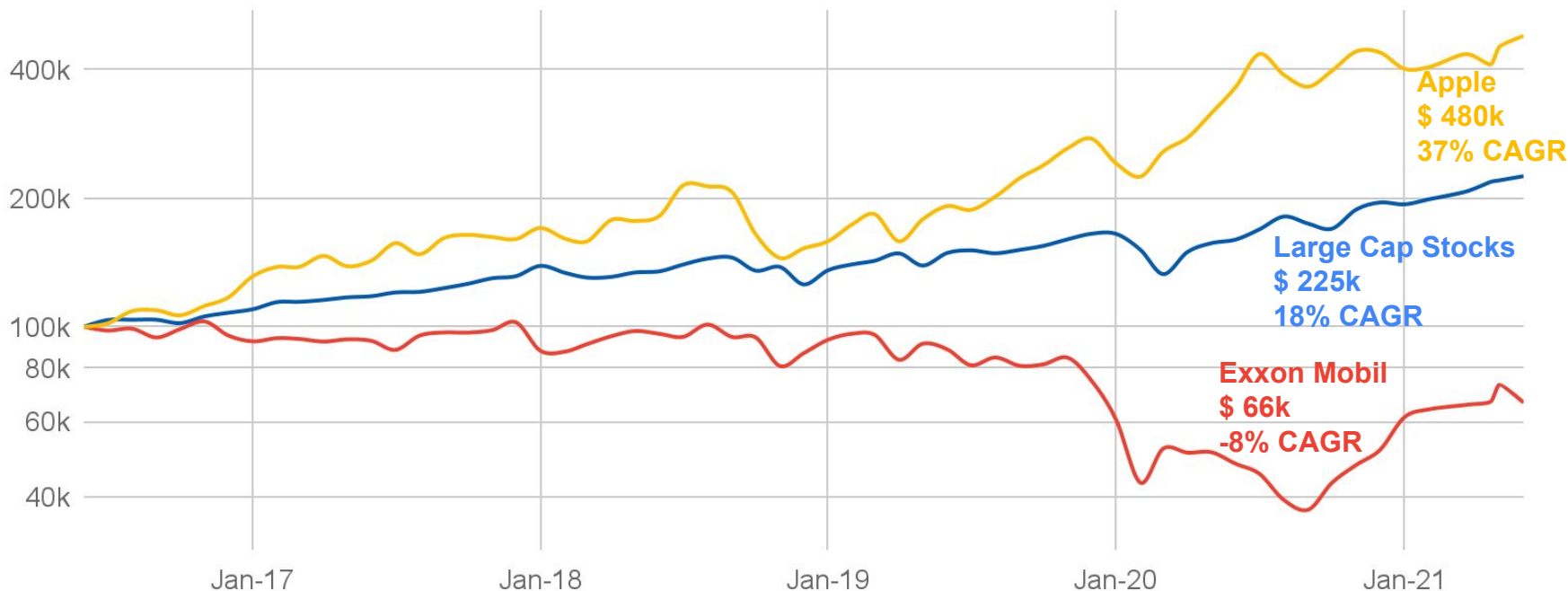
$$\frac{dS_t}{S_t} = \mu dt + \sigma dW_t$$

$$W_t = N(0, 1)\sqrt{t}$$

Source: Morningstar. Note: Not a trading recommendation. Past performance is not indicative of future results.

## AS 2011-2015 FUNDAMENTALS HAD INDICATED, APPLE TURNED OUT TO BE A FOUNTAIN OF WEALTH IN THE NEXT 5 YEARS

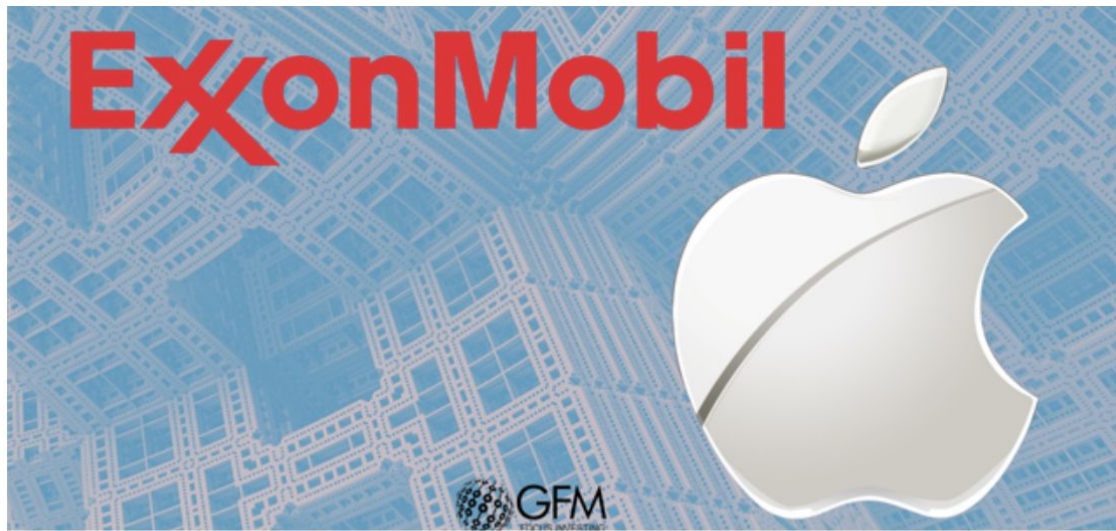
Growth of US\$ 100k Over 5 Years: Index vs. It's Top Constituents



Source: Morningstar, Yahoo Finance  
Note: Index Total Return, Stocks Price Return



Note: Not a trading recommendation. Past performance is not indicative of future results.



# Business Quality: The Difference Between Good and Great Investment Returns

Published on October 21, 2020

<https://bit.ly/3leV61J>



**Anand Batepati**

Long / short investment manager



**Compounder**



**Margin of Safety**



**Exceptional Investment**

High ROE

High reinvestment

High incremental ROE

Generating earnings growth

With high earnings quality

Refers to valuation paid to buy stock

Where the risk of permanent loss on money invested is low

Upside is several times bigger than downside

Overall risk / reward is outstanding

Apple in 2016

Wish you all a lifetime of successful investing.

**YOU ARE WELCOME TO GET IN TOUCH. WE WOULD LOVE  
TO MAKE YOUR ACQUAINTANCE.**

**Anand Batepati**  
**[abatepati@gfmgrp.com](mailto:abatepati@gfmgrp.com)**  
**[linkedin.com/in/batepati](https://www.linkedin.com/in/batepati)**  
**+852-6478-0975**

**GFM Focus Investing**  
**1406, 90 Connaught Road Central, Hong Kong**  
**71-75 Shelton Street, London WC2H 9JQ, UK**

**[gmffocus.com](https://www.gmfocus.com)**



**We believe in compounding, concentration, and seeking out exceptional investments.  
We partner with like-minded clients for our shared success.**

