

18th November 2025

Dear Investors,

Our performance since September 2024 has been below expectations. While benchmark indices and large caps have recovered, many of our portfolio stocks have not. I understand the questions on your mind — why our stocks are lagging, why there has been no churning, whether further declines are possible, and whether our stock selection remains sound.

Market cycles repeat. This is not the first such phase we have seen, and these questions are not new. The most difficult cycle EQ faced was between January 2018 and March 2020. Below is an excerpt from the letter I wrote on 13 March 2020:

“Corrections and bearish phases are integral to equity investing as they bring long term stability and efficiency to the capital markets. As long-term investors we have no practical executable option to address them other than remaining invested with equanimity, sticking on to the investment strategy which we have been practicing. In Equities, everyone, everything looks right/wrong at different points of time. But beyond these temporary phases of popular perception, patience and conviction on what suits one is what eventually rewards all. For long term success we need to ignore noises and focus on one’s chosen path, which in our case is identifying and value investing predominantly in small and midcap stocks, an area which not many funds or analysts explore or practice.

Selling on Greed and Buying on Fear are hard to do. In fact, the natural and popular impulse would be to sell and book losses when markets are going down and there is fear all around. Even though this might help psychologically to move on, financially it is not a good thing to do. The difficult to accept, but financially right thing to do in such periods is to hold on and buy whenever possible. This without doubt is what has helped all the successful investors in the long term. Ability to endure the pain of seeing paper losses is the price for success in investing.”

That downcycle ended on 24 March 2020, soon after the above message, and a strong post-Covid bull market followed. Those who invested or topped up during the panic made money, while those who sold ended up realising what would otherwise have remained paper losses.

When will the current phase end? I do not know, and perhaps no one does. My experience suggests that the end may not be far. Am I as bullish as I was in 2013 or 2020? Maybe not. But valuations today are more reasonable than they were a year ago. There are no ticking time-bombs in our portfolio. The companies we own have sound fundamentals, are near their lows, and in our assessment should rebound soon.

The India story remains intact, though with new challenges and shifts. Return expectations, therefore, need to be moderated for the next cycle, which could begin at any time — or perhaps has already begun.

Looking forward to better times!

Porinju Veliyath