Dear Investors,

New Year greetings to all our investors and stakeholders!

In this letter we discuss the uncertainties faced currently, the elevated geopolitical scenario and the impact it is having on equity markets. Nevertheless, we believe over long term these issues normalise. We may be in bear markets currently, but circumstances may change going ahead. Many investors who wait for clarity and confirmation of cycle turning may miss the alpha generation opportunities. Money cannot be made predicting bottoms but participating in markets when uncertainty and pessimism is high. Initial part of the letter discusses about tariffs and geopolitics while later part focusses on investor behaviour, historical instances of market corrections and subsequent rallies.

Trade deal negotiation still ongoing with US, India adding more countries in its FTA basket

We have seen significant delays in signing trade deal with US as the terms are not favourable for India. PM Modi wants to keep national interest on priority and hence certain clauses may not be favourable for India. India in the last few months have also gone ahead and signed deals with countries like UK, New Zealand, Middle East, Latin America etc. We have also seen joint agreements on many areas with Russia. For the period April 2025 to Nov 2025 we have seen Indi's total exports rise 3% in spite of tariffs.

Tariffs tantrums continue, geo politic risks increase

2025 started on a negative note mainly with Trump administration starting to impose tariffs on all countries. We saw elevated volatility in equities led by daily news on tariffs. We saw unsual behaviour of President Trump with the entire process of applying tariffs, the attention seeking behaviour and the unpredictability in which the entire tariff episode was managed. Many countries had to sign deal with US even though unfavourable, mainly to save their exports and economies and also get defence support from US. However, India took a bold call of not hurriedly signing any deal which does not give equal benefit to India. This may impact India in the short run but strengthens our image and gives long term benefits.

2025 also saw elevated geopolitical situation with wars and potential conflict situation between various countries namely India-Pakistan, Russia-Ukraine, Iran-Israel, Thailand Cambodia, etc. Some of these conflicts started in 2023 and 2024 while Indian equity markets continued to surge and make new highs, a contradictory scenario.

We are currently facing renewed tensions geopolitically many of which are induced by Trump. We saw Trump going after Venezuela and now talks are on for Iran, Greenland etc. This is keeping markets on the edge and investors in panic mode.

The situation for next few days/weeks remain very fluid and equity markets may be very volatile. The uncertainties that started in the beginning of the year led precious metals to rise substantially.

Biases at play

In times of negative events, investors usually panic and rush to sell. Companies which are not impacted by the negative event will also experience drawdown as investor exits their positions. One must be positioned rightly during such times, however most investors make common mistake of exiting and most of the times their exits are near the bottom. They also tend to time the end of the negative event, so that they can invest at the 'right time' however history shows by that time already markets make the move and alpha creation opportunities are lost. Investors also start doubting their existing investments in various companies just because of negative market sentiments.

Some of the biases exhibited by investors

Herd mentality – People tend to follow actions of majority of the market, assuming market must be right, rather than doing own due diligence

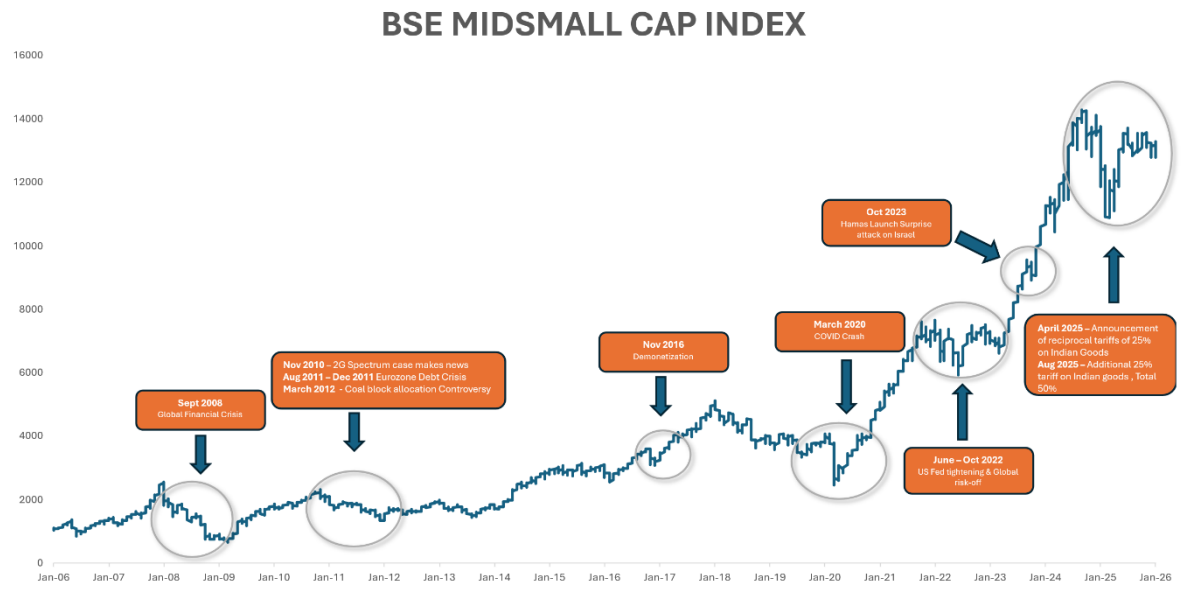
Recency bias – Investors tend to give undue weight to recent invests assuming current uncertainties and trends will continue and they position the portfolio accordingly. This may lead to missed opportunities in subsequent rallies.

Anchoring bias – Investors fixate on particular set of news/information based on current trends which acts as anchor in their minds. They may miss the incremental information or expectations of reversal of trends.

Historical negative events and indices in charts

We have seen various negative events since 2000. All these events were different from each other and had varied complexities. These instances have seen equity markets correct with small midcaps witnessing greater fall. However, as stocks became attractive and these events passed, equity markets witnessed substantial gains in ensuing years and every time indices made a new high. We would like to offer a similar takeaway in the current scenario. Every negative event will look scary and complex and will offer similar uncertainty while we are in it. However rather than panicking out of the situation one can learn from past events and stay put. Every time some negative event happens, small caps will go down the most due to low liquidity (there may not be any problem in respective companies) and every negative event will look more dangerous than earlier one. Hence buying with conviction and staying put during the event becomes difficult.

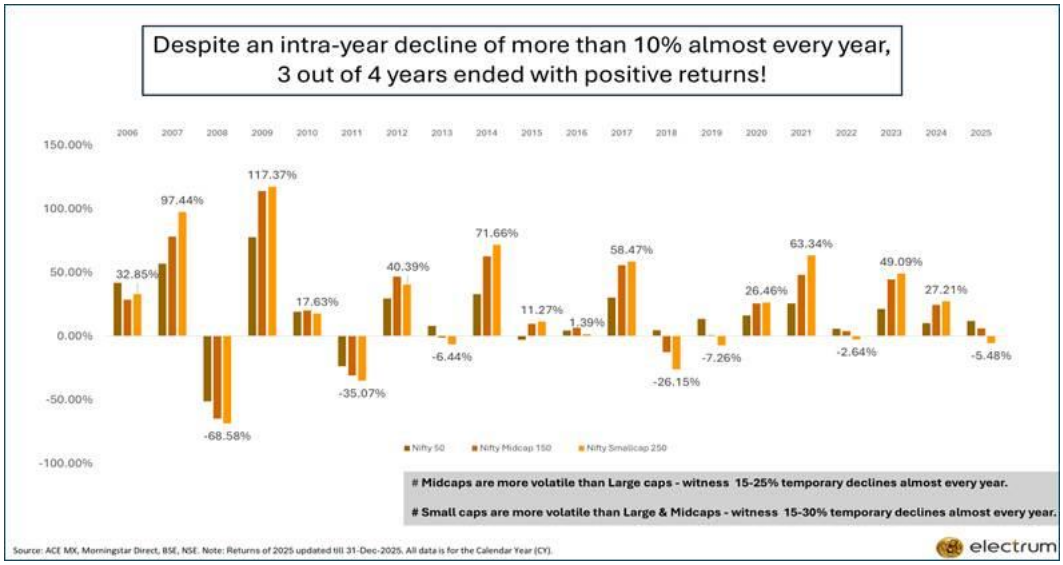
As we can see from the chart below the MidSmall cap index has been volatile and experienced sharp drawdowns in negative events (which cannot be timed), but the subsequent rallies in ensuing years have been sharper than earlier rallies and after all major negative event indices have made new highs.



To conclude…

We urge investors not to look at last 1 year returns as they can be misleading. We are passing through an uncertain and crisis and hence abnormal in nature. Markets do correct in such period with small midcaps performing even worse. Legendary investor John Bogle has said “If you have trouble imagining a 20% loss in the stock market, you shouldn’t be in stocks.” A 3-year view at least is necessary for judging the performance. The objective of our fund is to compound at reasonable rate of return for long periods like 5-10 years rather than 1–2-year perspective. In the long term any negative issues even out (like tariff issue currently, these may not be permanent) and markets dance to the tune of earnings growth, longevity of earnings, balance sheet strength and strength of the management.

The chart below depicts that generally every 2 years markets witness sharp corrections. Also, most of the years witness an intra year decline of around 10%. However, the subsequent recovery tends to be quite sharp, and history suggests every 3 out of 4 years end in positive return territory.



Markets will always be noisy, unpredictable and uncertain. Any attempt to time the market may have a 50% probability of going right or wrong. Every Crisis will look like missed opportunities in the hindsight. Negative events provide us with opportunity of buying strong businesses at reasonable levels. Businesses which can compound at a reasonable rate over long term should be bought at such times. We at Electrum follow bottoms up investing since our inception. We follow GARP strategy which enables us to buy sound businesses which can compound at reasonable rates over medium to long term and are slightly structural in nature. India is the fourth largest nation today and soon to be the 3rd largest. Our populations is the biggest blessing which will keep the consumption clock ticking. We are crossing the $ 3000 per capital soon which will lead to strong growth in consumption and capex opportunities. Government agendas like Make in India, increased manufacturing and various benefits being given to companies will lead to strong growth over next few years which is expected to trickle down to increase in stock prices. We are at an inflection point and as India grows its equity markets and investors stand to benefit handsomely over time. Happy investing!

"You make most of your money in a bear market, you just don't realize it at the time." Shelby Cullom Davis

Thanks and Regards,

Romil Jain

Deputy CIO and HOR

Electrum Portfolio Managers Private Limited

Corporate Office : 1301, Morya Grand, Off New Link Road, Opp Infinity Mall, Andheri, Mumabi 400 052
www.electrumcapital.in