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Saugata Banerjee
saugatab@mydigitian.com

How Bond Market may affect the Stock Market in Long Term

DIGITIAN VIEW!

After my series on Investment GURU, where I covered ten(10) Top Gurus - Benjamin Graham, Peter Lynch, William J O'Neil Philip A Fischer, Thomas Row Price Jr, John Templeton, John Boogle, Joseph Piotroski, Carl Icahn and Warren E Buffett. (Read the series and start with March newsletter)

It is very important to note that at times Long term Investors need to take note of the Bond Market movement Trend to determine the future market movement in the stock market. Generally, over a period of time when the 10 years Treasury Bill are stable within a range then it does not matter for the stock markets - other factors are more important. However, when the Central Bank or Fed started raising its bench market lending rate then it may spike the Bond market especially the 10 years treasury yield, then stock market is negatively related. There could be opportunity coming for new entry.

If consider the USA markets, which is highly developed and liquid, during the 1980s and 1990s, US Treasury bonds had a positive Beta with stocks — when stocks went down, bonds went down; when stocks went up, bonds went up. But around the turn of the millennium, this co-movement switched sign and became negative: bonds moved opposite stocks and served to balance portfolios. (Hedging)

The shift in how bonds move with stocks is linked to the **nature of inflation**. The nominal interest rates that drive Treasury bond prices reflect both inflation expectations and real interest rates — when these are high, bond prices tend to be low. However, **in a scenario in which high inflation and high real interest rates occur simultaneously with a recession is one in which Treasury bonds and stocks are likely to both go down.**

“..It is a great opportunity to get access to the long term Investors' investment book with a research capsule, buy/hold/sell real time guidance, and get a return of 20%-60% in 6-12 months - this is the unique offer Surrogate Investor brings ”

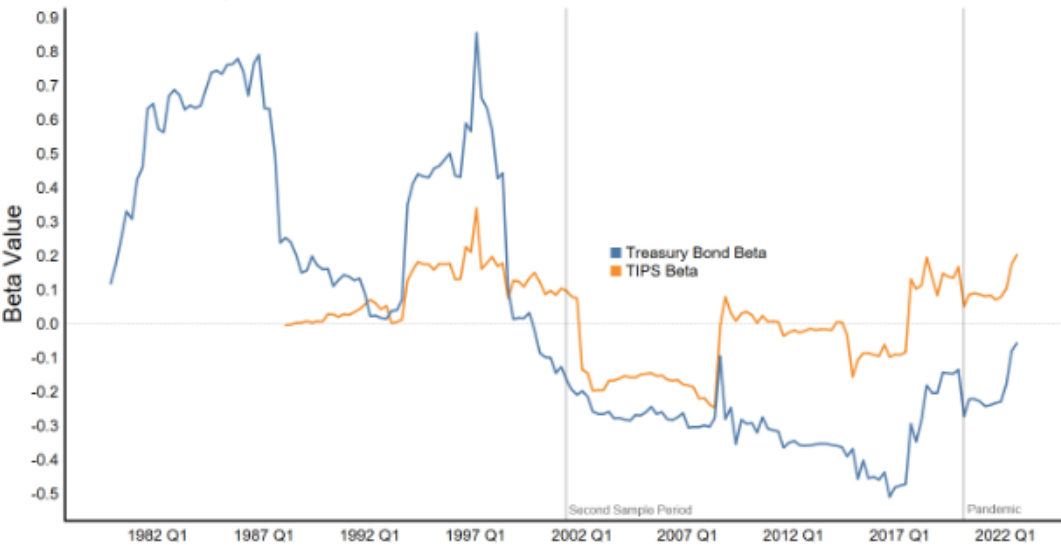
MARKET WATCH

Equity Indices	Monthly Close	Monthly Change %	2023%	2022%
S & P	4505	-0.2%	17.3%	-19.5%
Nasdaq	13926	-0.3%	33.1%	-33.1%
FTSE 100	7673	3.6%	3.0%	0.4%
Shanghai Compsite	3127	-4.1%	1.2%	-15.1%
NIFTY	20103	3.0%	10.8%	4.5%
Nairobi SE 20	1540	-2.5%	-8.1%	-11.7%
Egypt SE 30	19540	11.9%	33.4%	22.5%
All Shares	1800	0.4%	-4.3%	-0.9%
Nigeria SE 30	2482	6.1%	34.7%	7.0%
Morrocco All Shares	11775	-3.5%	8.8%	-18.9%
Bangladesh DSE 30	2138	-1.1%	-2.6%	-13.3%

Commodity	Monthly Close	Monthly Change %	2023%	2022%
Gold	1932	-2.0%	5.6%	0.05%
Crude Oil	94.15	12.8%	9.5%	10.98%
WTI Oil	90.58	13.6%	13.0%	6.14%
Copper	3.82	-0.5%	-0.3%	-13.35%
Iron Ore	120.53	11.3%	8.3%	-1.08%
Aluminium	2222	0.4%	-6.6%	-15.03%

ROLLING TREASURY BOND STOCK BETAS

QUARTERLY, 1979:Q4-2022:Q3



source: Pflueger (2023)
 Note: Based on quarterly data with a five-year rolling window. UK inflation-indexed bond yields are used to proxy for TIPS yields prior to 1999.
 EconoFact econofact.org

In this century, until very recently, it has been different. The Fed had good credibility regarding its commitment to fighting inflation and there were no major supply shocks moving inflation expectations. Under those conditions, if there's a recession, the Fed will cut interest rates to stimulate the economy. The recession is bad for stocks. Low interest rates are good for bonds. Bond and stock prices move opposite one another, resulting in a negative bond Beta

The importance of Treasury bond-stock co-movement has been increasingly recognized in policy circles as an important policy indicator of supply-driven inflationary pressures and the risk of a monetary policy-induced stagflation.

In the short term, **if the Central Bank increases the rate sharply which will spike the 10 year Treasury Bond yield to peak and the stance is going to be maintained, when the expectation for GDP growth to be nominal or Inflation to be at incremental trend the the stock market will be in the lower trends for sure.** This will only have a reverse effect once the Central bank starts lowering the benchmark.

The increase in the Nominal interest rate on Treasury bill especially with 10 years TB, the long term investors will switch to an extent and incremental investment would follow the bond route. Because it is also a fact that in a medium term there is a recession looming and Fed/central would resort to cut the policy rates down , which will lower the nominal interest on bonds annd will increase the Bond value higher which will surely offer a better capital gain than shares. This future outlook strategy also strengthen the bonds market and during these short period Shares markets see exodus and market correction. However that creates a fresh entry point into a stock where the stock return is expected to outweigh the future Bond return.

So what I would suggest that any investor while investing in the stock market or in a stock , even if everything is going positive for the company, the industry and stock should consider the Bond Market to determine whether it is the right time to enter into/ increase portfolio in a stock.

Happy Investing

COUNTRY DATA

Countries	GDP (USD Bn)	Market Cap (USD Bn)	GDP Growth 2022 %	Inflation %	GDP (USD Bn)
USA	25283	48264	1.4%	6.50%	23420
China	17300	7620	5.2%	2.5%	16000
India	3500	3210	6.1%	5.6%	3050
Egypt	423	49	5.5%	15.20%	340
Kenya	118	23	5.1%	6.6%	118
Tanzania	71	7	5.2%	5.3%	62
Morocco	147	11	3.1%	8.30%	122
Nigeria	454	54	3.20%	20.2%	445
Bangladesh	425	68	6.0%	9.10%	400

Forex	Monthly Close	Monthly Change %	2023%	2022%
EUR USD	1.064	1.06%	-0.5%	-5.57%
GBP USD	1.241	-2.36%	3.0%	-11.00%
USD INR	83.120	-0.47%	-0.5%	-9.95%
USD KES	146.70	-2.73%	-16.0%	-8.24%
USD EG POUND	30.95	-0.19%	-20.0%	-36.58%
USD TZS	2505.00	-2.00%	-7.1%	-0.95%
USD NAIRA	747.00	1.61%	-40.2%	-8.00%
USD TAKA	110.00	-1.30%	-6.1%	-16.98%



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Debashish

Name of the Company	Date of Purchase	Entry Price	Actual Gain Published in Feb2021	Actual Gain Published in Dec2021	Actual Gain Published in March 2022
NGL Fine Chem	13-Mar-20	302	352%	767%	729%
Tata Elxsi	27-Apr-20	790	263%	646%	1057%

Name of the Company	Date of Purchase	Entry Price	Actual Gain Published in Dec2021	Actual Gain Published in March 2022	Actual Gain Published in June 2023
NGL Fine Chem	13-Mar-20	302	767%	729%	572%
Tata Elxsi	27-Apr-20	790	646%	646%	883%
RACL Geartech	4-Aug-20	65	897%	897%	2085%
Arman Financial	8-Feb-17	243	327%	327%	826%
Shivalik Bimetal	5-Feb-21	69	443%	697%	933%
Newgen Software	7-Apr-20	116	373%	477%	610%
Trident	1-Oct-20	6.55	648%	740%	419%
Indian Bank	11-Jan-21	87	Not in List	94%	287%



Saugata

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VALUE INVESTING

Debashish Neogi

“ Gambling does not require any skill while Investing for long term requires ability to take an informed decision of the business future of company, patience and long term perspective of the market.. Investment is not gambling”

How to find a Microcap Multi-bagger ? (PART 1) Repeated

A full fledged Masterclass on Micro-cap Multi bagger was aired by SOIC in July 2023. This was a unique opportunity to get the view of Super Investor Debashish Neogi. The entire episode is over 3 hours and is available to the paid Subscriber of SOIC. The cost of SOIC subscription is Rs 15000/- (\$200) annually.

Our readers will get a FREE glimpse of his view on this interesting Topic in installments in our Newsletters. (keep Reading)

What is Multi-bagger?

In the context of finance and investing, the term "multi-bagger" refers to a stock or investment that generates exceptionally high returns over time. A multi-bagger is typically used to describe an investment that has appreciated significantly, often several times its original investment value.

The term "multibagger" comes from the concept of a bag that multiplies its contents, suggesting that the investment has grown exponentially. For example, if you invest \$10 in a stock and it eventually reaches a value of \$100, that stock would be considered a multi-bagger because it has grown tenfold.

Insights on Multi-bagger

Multi bagger (here talking of 100x and not 10x) analysis of past decade in India .

Three insights came out which according to me is very important :

- All were less than 500cr market cap in 2011 except Bajaj finance which was 2500cr
- It was from all types of sector hence sector was not important but the company itself was
- 80% of the share price move happened in less than 20% of the time in last 10 years and hence holding them through ups and down is key

Apart from above what was key according to me was :

- Promoter is Key
- Large market potential or Niche scalable potential tapped very early
- They have competitive edge and/ or also pricing power in a big addressable market
- Give adequate weight age to the Time ,Return will be by product then !

Trade-off between R and n

$$A = P \left(1 + \frac{R}{100} \right)^n$$

IAN Cassel Insights on Multi-bagger

The smaller the company, the more should be the focus on management and qualitative analysis. CEOs of small micro cap companies tend to wear a bunch of hats, so their influence is much greater than larger companies. Founders are the difference makers.

Intelligent Fanatic = (Long Term Vision + Focus + Energy + Integrity + Intelligence) x ExecutionIan Cassel

Many investors mistake an executive with charisma for being an intelligent fanatic. The micro-cap space in particular is filled with snake oil salesman and executives that talk too much and do too little.

Don't mistake a story telling, charismatic CEO as an intelligent fanatic. In fact, many intelligent fanatics are not charismatic. Intelligent fanatics let their execution do the talking.

My Learnings :

- Luck plays an important role – we under estimate (ex ITC as a personal example)

Then comes Skillcheck your “Skill Will Matrix”

- Focus on your core competence
- Stay foolish stay hungry –Steve Jobs
- Cut the noise
- No trade is also a trade (no investment is also an investment) –ex personal example sitting on 30%+ idle cash for almost 4 years –opportunity cost is huge either way
- Behaviour is Key (Investment with Masters & Professor Sanjay Bakshi course in FLAME gives an edge)

- Company should have pricing power
- Available at reasonable valuation ,which we all want
- Focus on T (Time) in life which means focus on Health & Happiness, Money will be a by product
- Money should be made when you sleep –hence follow the process of hunting not the hunt itself

Need to find earnings growth

- Consistent profit growth (ex Tata elxsi)

	Date of first purchase	Entry price	Price 7 Jul 2023	No of times(X)	No of years taken
Arman Financial	8 Feb 2017	243	2256	9.3	6.4
RACL geartech	4 Feb 2020	65	1218	18.7	3.4
Tata Elxsi	27 Apr 2020	790	7541	9.5	3.2
NGL finechem	13 Mar 2020	302	1992	6.6	3.3

- Good management with strong execution skills & skin in the game (because we are betting on the jockey)
- A company which has competitive edge /Right to win and have clear focused “strategic intent “ for years.
- I can clearly see “sustainable profitable growth “atleastfor next 5-7 years –all the 3 words are very important for me - sustainable ,profitable and growth over long period of time !!
- Operating Leverage -works beautifully in high gross margin business which have low capacity utilisati
- Completion of major capex(Ex Deepak Nitrate)
- Split of business (ex KPIT)\
- Extraordinary or one off write off (Ex Tanla)
- Change of perception a) Change of Management / Change of owners /Change of CEO (Ex Tube investment

b) New Themes –Sugar (ex Shree Renuka), Renewable–Waaree technology, Denora

MOSL Wealth Creator study says:

Need to find earnings growth , most of the time PE -re rating would follow which is biggest trigger in share price CAGR for multi-baggerHappy Investing

Exhibit 2 Top 10 Biggest Wealth Creators (2017-22)

Rank	Company	Wealth Created		CAGR (%)		P/E (x)	
		INR bn	% share	Price	PAT	2022	2017
1	Reliance Inds	13,018	14.1	32	14	30	14
2	TCS	9,548	10.3	25	8	36	18
3	Infosys	5,795	6.3	30	9	37	17
4	HDFC Bank	4,108	4.4	15	20	21	24
5	Bajaj Finance	3,614	3.9	44	31	62	35
6	ICICI Bank	3,286	3.6	24	20	20	16
7	Adani Trans.	2,538	2.7	106	24	217	17
8	Hind. Unilever	2,442	2.6	18	16	54	46
9	Bharti Airtel	2,422	2.6	19	-7	137	32
10	Wipro	2,302	2.5	25	8	27	15
Total of Top 10		49,075	53	27	13	34	19
Total of Top 100		92,166	100	28	20	32	23

Exhibit 3 Top 10 Fastest Wealth Creators (2017-22)

Rank	Company	Price Appreciation (x)	Price CAGR %	PAT CAGR %
1	Adani Transmission	37	106	24
2	Tanla Platforms	32	100	67
3	Adani Enterprises	30	97	-4
4	Brightcom Group	26	92	16
5	Tata Tele. (Mah.)	23	87	L to L
6	Deepak Nitrite	17	76	87
7	Alkyl Amines	16	74	34
8	Tata Elxsi	12	65	26
9	Coforge	10	59	20
10	Mindtree	10	57	32

L to L – Loss to Loss; N.M. – Not Meaningful

(to be continued)

Continued Page 7

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After the success of Surrogate Investor for small and medium value investors We have introduced **SURROGATE INVESTMENT Platinum**

Surrogate Investment **Platinum** is for High Value Clients who does not have time to monitor their Investment and they are only interested in the return in their portfolio.

Why it is a success:

- **Skin in the game:** the fund managers picked up these shares and invested in themselves basis proprietary Research
- **Time to market :** They are keeping daily watch on the stock/market behaviour and that of the global trend
- **Regular Profit booking :** They make profit and you make too in the medium to long term
- **Professional Expertise & Performance Track:** Fund managers are super Qualified Professional Experts with their Return CAGR varies between 35%- 48% over last 15 years

Why it is a better structure than market Portfolio Management?

- **Full Control over your dedicated Investment Account in your own name with a 3rd Party Large Banking Brokerage :** Open an account yourself with the a large Brokerage. Our Team will buy and sell in your account depending upon shares selected by our Super Investors
- **Tax Advantage:** Since it is in your own account, you can take advantage of Long term and short gain without paying double taxation
- **Full control of your Investment Fund:** you control the bank account linked to the trading account so there is ZERO RISK and no TRUST DEFICIT.
- **ZERO FEES or UPFRONT PAYMENT :** only transfer to Digitian Capital after you earned an upside (only on realisation) All control is in your hand
- **A separate Digital Account with Digitian Capital :** This will track trading results for easy reference.

What is the structure of **SURROGATE INVESTMENT Platinum** ?

- **Minimum Investment Requirement :** USD 500,000 or INR 3 crores
- Markets : INDIA & USA
- **Open a dedicated Brokerage Account with any Large banking Brokerage**
- **Minimum Investment : 12 months for each stock**
- **Allow Digitian Capital processors to Buy and sell shares in your account**
- **Quarterly Review of Investment performance and upside payment to Digitian Capital**



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