Track celebrity investors, but invest only after your research

Price at which you enter these stocks will differ, altering their risk-return profile

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Celebrity fund manager Prashant Jain left HDFC Mutual Fund recently after a stint lasting more than two decades. His investment moves were reported and keenly watched by many. Similarly, the investment community avidly tracks the 'buy' and 'sell' moves of celebrity investors such as Rakesh Jhunjunwala (in pic) and Radhakishan Damani.

While it is interesting to know what these celebrity investors and fund managers 'buy' and 'sell', retail investors must think twice before blindly replicating their moves.

Celebs know their game

Celebrity investors have an obvious advantage over retail investors since they their investments are backed by a massive amount of research. They also have more knowledge. "These investors are experienced and have a good understanding of megatrends. They often meet the management before investing in a stock and do regular follow-ups to understand business growth and the management's strategy," says Vivek Bajaj, co-founder, StockEdge. Retail investors don't have the advantage of such exclusive access and insight into businesses.

While a retail investor can get to know the name of the stock that a celebrity investor has bought, he would not have a clue about the time horizon for which he has bought it.

"Very often celebrity investors have a trading portfolio for the short term and an investment portfolio for the long term. The thesis behind their investment choices and the assessment they have for the underlying businesses will also not be available in the public domain," says Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors.

Hidden price points

While the purchases of celebrity investors become public knowledge,

what is not known is the price point at which they bought them.

"The stocks they are investing in are part of an overall portfolio. You also need to know the price points at which they made the purchases to be able to truly replicate their investment strategy. Their exits also need to be tracked in a similar manner," says Dhawan.

Adds Bajaj: "The stock may have moved significantly between the time when the celebrity investor acquired it and when news of the acquisition became public. This would alter the risk-reward profile of the stock for the retail investor buying them later," says Bajaj.

Know your risk tolerance

Before cloning a celebrity investor's investment decisions, a retail investor must also be aware of his own risk-taking ability. "Celebrity investors and fund managers have a very different level of risk tolerance and absolute wealth. That is why replicating their investment strategy can be dangerous for retail investors," says Dhawan.

YOUR MONEY

Be a long-term player

Even if you choose to replicate a celebrity investor's moves, you should not do so for short-term gains. "Ideally, you should not replicate what such people do. But if you do, the investment should not be a short-term punt. You should be willing to commit for the long term," says Suresh Sadagopan, managing director and principal officer, Ladder7 Wealth Planners.

Check whether the investment is in line with your investment goals and objectives. "It is important to align these investments to your own risk profile, upcoming goals, major expenses, and overall life situation," adds Sadagopan.

Do the due diligence

Finally, if you decide to go ahead and invest in the same stocks as a celebrity investor, study them before betting your money. "Retail investors should always do their due diligence before putting their hard-earned money in any stock. Given the size of their portfolios and percentage allocation to a stock, a drop in price may have little impact on an ace investor's portfolio. A similar drop could send your portfolio for a toss," says Bajaj.

Renowned hedge fund manager of Indian origin, Mohnish Pabrai, founder and managing partner of the Pabrai Investments Funds in the US, admits that he clones the stock picks of other famous hedge fund managers by going through their regulatory filings. But he invests only after doing his own rigorous research on those stocks. You must do the same.

CHECKLIST BEFORE INVESTING

Does the stock lie within your circle of competence?

- **Is this a company whose earnings grow** in a predictable manner?
- **Does it enjoy** above-average return on capital?
- **Does it have** strong free cash flow?
- **Is valuation** attractive?
- **Does the management reinvest surplus capital** in a rational manner?
- **Does it possess** unquestionable integrity?