Brief Analysis of "*Coffee Can Investing*" approach

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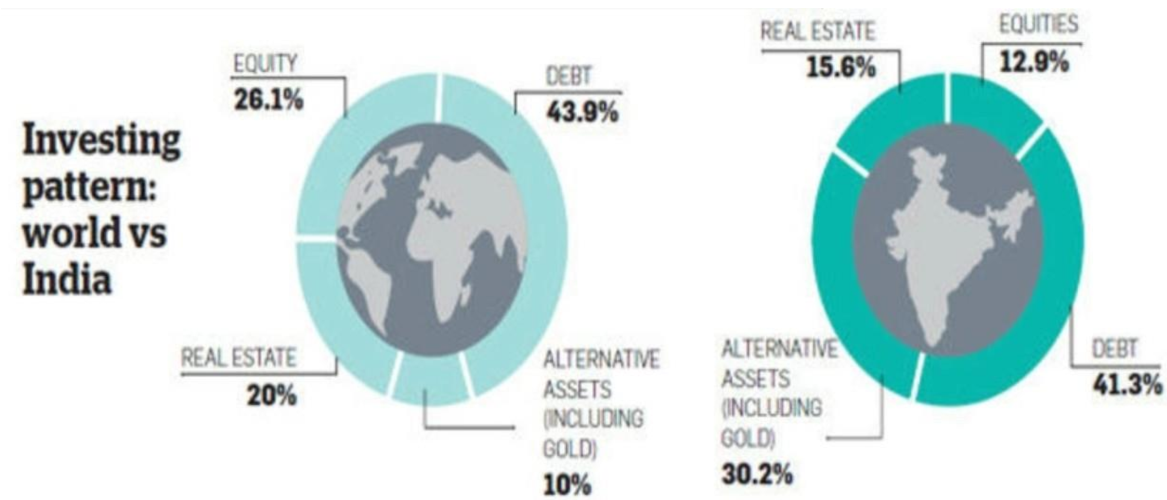
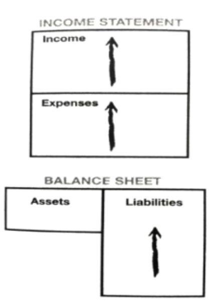
I. Synopsis

Financial experts agree that while people have much more money today than they did generations ago, the amount of knowledge on how to manage that money hasn't kept pace- not at all (Maura Fogarty, 2012). People in India usually look for traditional ways to store wealth, for example, Real estate, Gold, FDs, etc.



Indians usually Investment less in Equity, Bonds, Cryptocurrency, etc, where they can generate



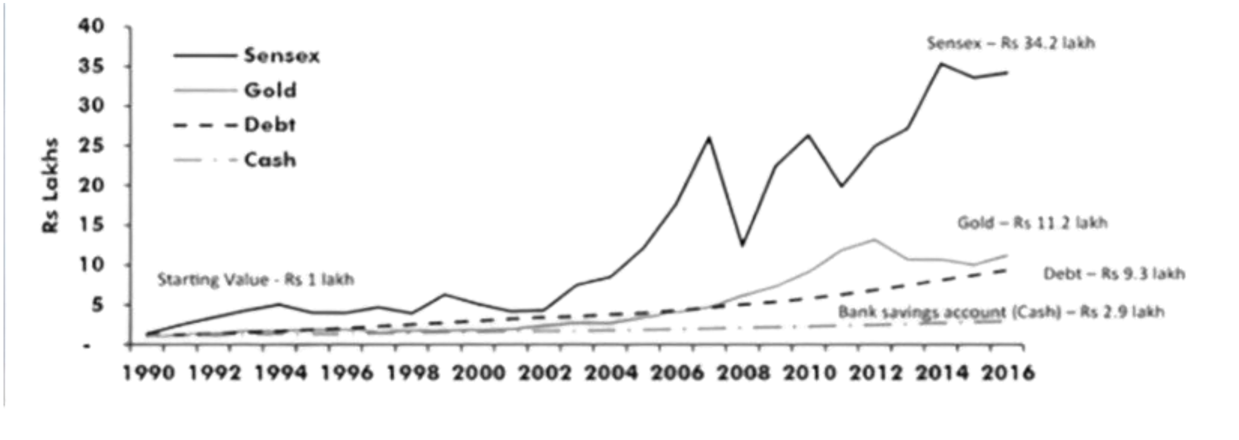
possibly higher returns. Then why don't they? Well, this is because of fear. Surprisingly, this phenomenon is not common only in India but all over the world; I call it '*poor dad syndrome'*. According to this syndrome, people are driven by 2 emotions *fear* and *greed*, fear of losing the wealth they have gained and greed to gain more wealth. In a typical Indian household, as the income rises, the expense also increases along with it. They eventually, end up spending more and create liabilities (as you can see in IMG2). Therefore, rather than increasing spending, it's better to seed assets to your balance sheet. This can be done through, investing in equity. Long ago, there was a famous technique popularly known as *COFFEE CAN INVESTING*, which was introduced by Robert Kirby in the 1980s; this idea was further presented and documented in the book, *"Coffee Can Investing: The Low-Risk Road to Stupendous Wealth"* written by Saurabh Mukherjea, concerning Indian

Stock market. The purpose of this research is to elaborate on how successful is “Coffee can Investment strategy”? How over the 5 years from 2017-to 2022, stocks under the Coffee can basket have performed.

II. Introduction

Investment is an important tool to create seed assets in your balance sheet and achieve financial independence. By definition, Investment is “ the dedication of an asset to attain an increase in value over a while. Investment requires a sacrifice of some present asset, such as time, money, or effort. In finance, the purpose of investing is to generate a return from the invested asset.” There are different ways through which people can invest like an index fund, mutual funds, small case portfolios or equity. In investing, people use different methods, techniques, or options to invest. Some investors look for past performances of the company, while others just care about the fundamentals of the company; many of them are also influenced by external forces such as economic factors and policy structures adopted by government and private industry, and decisions are ultimately made by individuals. In this research paper, we analyze a famous technique for buying a basket of stock, the *Coffee Can Investment strategy,* This strategy for introduced by Robert Kirby, but what we currently define it, is a modified version of Robert’s initial strategy. “coffee can investing” refers to “buy and forget” approach to investing in the stock markets. It is a low-risk method to create wealth by purchasing a particular stock quantity at a specific price and then holding them for at least ten years to generate high returns. investors can choose to buy high-performing equity stocks and forget them for a lengthy period. This strategy can provide very high returns but selecting the right stocks is essential. In India, Saurabh Mukherjea, Rakshit Ranjan, and Pranab Uniyal authored a book, “*Coffee Can Investing: The Low-Risk Road to Stupendous Wealth,*”

This book is a case study of 2 families' investment journeys, Mr Sanghavi and Mr Talwar. This book charts the rise and fall of their investment journey, and they end with little to no investment after the market crash of 2008 and the real estate correction of 2013. Now both were close to their retirement and they were supposed to plan their retirement, therefore they got in touch with a senior relationship manager at a reputed wealth management company, Nikhil Banerjee. He met with both separately, calculated their net worth, enquired about their long-term financial goals and charted the amount of capital required to fulfil these goals. Later part of the book, he showed them that if they had invested their money in *Sensex, debt, gold and cash,* to forget about these holdings, and how much returns they could have generated (in IMG3).



Concerning their financial goals, he suggested they invest in equity, for that he told them to follow the coffee can investment technique and create a coffee can portfolio. In this technique, they invest in 10-25 high-end stocks, for that, they set some parameters to find these stocks. The following were the parameters:

- Companies with a Market capitalization of 1000 crores and above.
- Companies with sales growth of 10% or above for consecutive 10 years or more.
- Companies with a Return of capital employed of 15% or above for consecutive 10 years or more.
- Brand Value of the company
- The competitive advantage of a company or market share.

Company Name	Amount Invested (Rs)	Mcap (Rs cr)*	Mcap ($ mn)*
HDFC Bank	100	4,55,427	71,160
HCL Technologies	100	1,21,180	18,934
Lupin	100	44,633	6974
LIC Housing Finance	100	33,505	5235
Page Industries	100	19,581	3059
GRUH Finance	100	18,486	2888
Amara Raja Batteries	100	13,355	2087
Abbott India	100	9054	1415
Astral Poly	100	8204	1282
Dr Lal PathLabs	100	6682	1044
Repco Home Finance	100	4064	635
Muthoot Capital Services	100	729	114

By using the following filter, he created a basket of 12-14 stocks (as shown in IMG5). Suggested them to hold these stocks for 10 years for maximum returns. Today, we are living in 2022 which means it is almost 5 years for the coffee can portfolio. The purpose of the research paper is to analyze the performance of each stock listed below quarterly, half-yearly and annually. This paper will study each company thoroughly and conclude the effectiveness of the portfolio and draw conclusions about the Coffee can Investment strategy and Coffee can portfolio.

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Objectives

This study aims to achieve the following objectives:

- To understand the financial satisfaction of an individual, opting to invest in a Coffee can portfolio.
- To understand the rationale behind the *coffee can investment* and to evaluate the efficiency of the following
- To study the companies in the coffee can portfolio, and review their performance on various parameters.
- To evaluate the coffee can portfolio, and simulate returns in real time.

III. LITERATURE REVIEW

They talk about how different securities have different risks attached to them and how the diversification of securities in the portfolio can help not only minimize the risk factor but also maximize the return of the portfolio as the risks involved in some securities might not be involved in the other securities. They have used the Sharpe and Treynor model to evaluate portfolios and also to arrive at the optimal portfolio. Further, they examine the patterns of consistency between Sharpe and Treynor's models and evaluate the efficiency of the Sharpe Single Index model to an optimum portfolio. The period that they have chosen for the study is April 2004 to March 2009 which is 5 years. They conclude that there is no pattern of consistency between the Sharpe and Treynor's Models for efficient securities identification However, the Sharpe Single Index model was able to successfully reach the optimum portfolio by diversifying almost all the unsystematic risk. *(Dr. Taneja, Y. P., & Bansal, S. (2011). Efficient Security Selection: A Study of Portfolio Evaluation Technique)*

This paper tells us that even though the GDP of India has increased almost three times over the past decade which has resulted in the market capitalization of the Indian companies increasing almost 8 times the development of the capital market has been uneven and the penetration has been limited. This paper tries to study the various investment options preferred by the investors in Mumbai, and also the preference of investors in Mumbai when it comes to debt and equity when compared to the other investment avenues available in the market. The data used for this study is primary data and the research design is descriptive. The data analysis is done by comparing the Age groups to Annual income, Familiarity with investment markets, and expected investment returns, whilst also comparing occupation to Investment Objective, Attitude of Investing to several years funds are blocked, Expected return compared to preferred Avenue of equity, preferred Avenue of bank deposits, preferred avenue of mutual funds, and lastly, Funds blocked compared to expected return. The Chi-Square test has also been used in the analysis. The study was able to find that people mostly prefer Bank Deposits as a secured form of investment. *(Dr Nilesh, K. (2017, January). A Comparative Study of Investor Preferences Concerning Debt and Equity while Constructing a Portfolio in Mumbai Region)*

Their research revealed at least three important points. The first is that the simulated results for skillful managers, defined as a Sharpe ratio of 0.5, showed wide variation for a five-year simulation. This is a natural consequence of variation but underscores that skillful managers will have periods of underperformance. As the author stress, there's a big difference between the expected Sharpe ratio and the realized Sharpe ratio. The realized ratio does surface for a large sample of funds, or a single fund over a long period, but individual funds do see large divergences between expected and realized Sharpe ratios over multi-year periods. *(March 2011 Legg Mason Capital Management The coffee can approach)*

It is suggested to an investor make an informed decision about the stocks that they hold in their portfolio and it is also suggested to an investor to first learn about what a Coffee Can Portfolio is and invest in a Coffee Can Portfolio according to their Medium-term to Long term goals in life such as buying a house, a car or even retiring early. Since the returns that are given by a Coffee Can Portfolio are relatively higher than the other portfolio, Mutual Funds or Asset Classes and the un-systematic risk involved is almost diluted to nil, the investor will be able to easily achieve their Medium-term to Long term goals without applying much technical knowledge. *(ISSN: 2394-2770, Impact Factor: 4.878, Volume 05 Issue 4(1), December 2018, Pages: 84-88)*

This paper starts by saying that the expected rate of return varies from person to person depending on different factors such as age, income level of investor, nature of the occupation, short-term, middle-term and long-term career goal, the percentage of income the investor prefers to save per annum, the risk appetite of the investor, and selection criteria of different investable tools. It says that Researchers across the world have developed several models, tools and techniques such as Fundamental Analysis, Technical Analysis, Efficient Market Hypothesis, and different portfolio optimization models but at the end of the day there is no sure shot way of guaranteeing results because of the dynamic nature of the market and the huge volatility in the market. It then talks about the portfolio management services that are available now to people who lack the technical knowledge for investing their idle funds. However, the challenge that these portfolio management service providers face is providing returns which are higher than the inflation rate in the market. This paper provides a new direction to which extent the portfolio can be immunized against the risk and uncertainties of the market. *Dhar, S. (2013). Portfolio Management Strategies: Its Importance and Challenges under the Changed Circumstances.*

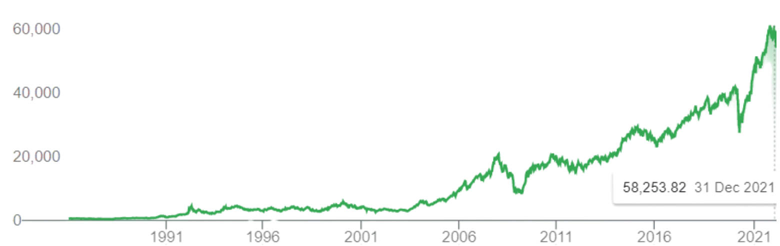
Research Gap

The majority of these studies have failed to provide a comprehensive analysis of the companies in the coffee can portfolio and its comparative analysis of returns compared to Nifty 50 or Sensex. Additionally, these studies and hypotheses target the importance of financial literacy and the growth of the economy at large. Lastly, there is no such research analyzing the performance of coffee can portfolio, as suggested by Saurabh Mukherjea, Rakshit Ranjan, and Pranab Uniyal in their book, "Coffee Can Investing: The Low-Risk Road to Stupendous Wealth," The current study aims to provide a comprehensive analysis of the coffee can portfolio, 5 years after it was introduced to Indian Market; provide statistical data comparing it with index funds such as Nifty 50 and Sensex.

IV. Research Design

Statement of Problem

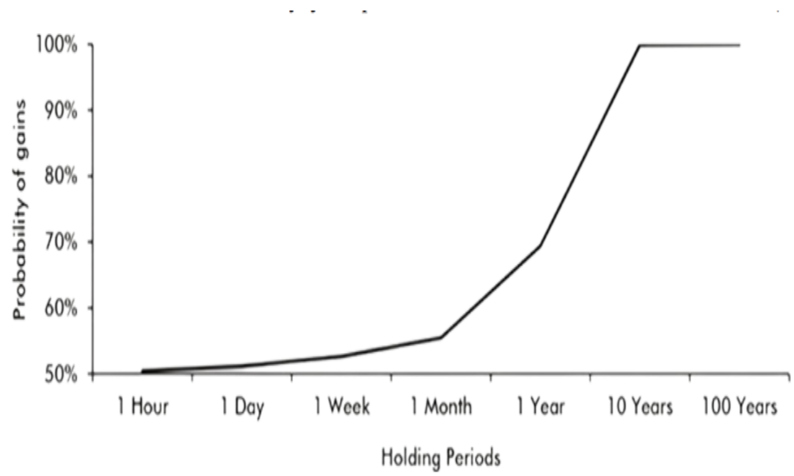
The problem here is that people don't trust the equity market. They correlate investing in the equity market to pure gambling. They fail to understand, that investing in the equity market is a calculated risk to make money. We all want to make money but without taking risks; this is not the way the real world works rather those who dare to take risks, are the ones having the better chance of surviving this world.



Furthermore, people are scared of risks or market crashes but they fail to realize that after every crash there is a bull run. If the following Sensex chart (IMG5) was analyzed carefully after every market crash or correction, there was a bull run which followed it. For instance, after, the Harshad Mehta 1992 scam, the late 1990s dot-com-crash, the 2008 recession or during covid, the markets adjusted. It took the market approximately 9 months to reach pre-covid levels. Furthermore, it reached new highs touching the 60,000 mark once in 2021.

The fact is the longer people hold their positions in the market, they stand more chance of making money for instance the following graph

(IMG6) from *Coffee Can Investing: the low-risk road to stupendous wealth* shows the probability of making returns according to the holding period. This graph clearly shows that the longer investor holds a portfolio the more chance of making profits stand. Every minute, hour, day, week, month, quarter or year, investors hold their portfolios. They stand a better chance of making profits. The statement problem is that people fail to realize that financial markets are like a chicken with golden eggs; but to make money, a strategy is required. Many Mutual funds are not able to beat indices such as Sensex or NIFTY 50 which has brought into question the high commissions that they charge which are as high as 2 per cent whilst providing returns which outperform the Sensex by only 2-5 per cent. This paper will analyze a better alternative for investors.



Sources of Data

- The data collected and used in this research paper is secondary data.
- The data has been collected from various websites to perform the analysis by comparing the returns of the Mutual Funds, Coffee Can Portfolio, NIFTY 50 and Sensex.

Hypothesis

- Coffee Can Investing does not give higher returns than Other Asset Classes or Investments
- Coffee Can Investing gives higher returns than Other Asset Classes and Investments

Limitations of the Study

- There is a lack of articles and research papers that are relevant to the topic.
- There are very limited tools which can be used for analyzing this type of data.
- The scope of the study is restricted to the Equity market.

V. Data Analysis

Coffee can Portfolio 2017-2022

The table below shows the coffee can portfolio, as per *Coffee Can Investing: the low-risk road to stupendous wealth,* by *SAURABH MUKHERJEE, RAKSHIT RANJAN and PRANAB UNIYAL.* It illustrates an imaginary portfolio of a basket of selected stocks (pg no 76) with their change in price, changes in market capitalization, contribution to the start of the portfolio and contribution to the end of the portfolio.

NOTE*: The portfolio designed below is valued at 12,00,000 and approximately 1,00,000 is allocated to each of the stocks in the basket (picked from Coffee Can Investing: the low-risk road to stupendous wealth, pg-76). The measures are set at the following units:*

- *Stock prices- Rs/₹*
- *Market capitalization- $/mn*
- *Amounted invested- Rs/₹*
- *Contribution to portfolio value at start- %*
- *The figures of market capitalization are rounded to the nearest tenth million.*

Table 1.1

S . No	Name of the Stock	Price (Jan 1st, 2017) *Rs*	No. of shares	Market cap(Jan 1st, 2017) *$ mn*	Amount Invested *Rs*	Contribution to portfolio value at start
1	HDFC Bank	603	165	45,200	99,495	8.219 %
2	HCL Technologies	403	248	18,700	99,944	8.32%
3	Lupin	1445	69	6100	99,705	8.30%
4	LIC housing Finance	550	181	4160	99,550	8.29%

5	Page Industries	13543	7	2230	94801	7.9%
6	GRUH Finance	161	621	2700	99,981	8.33%
7	Amara Raja Batteries	930	107	2190	99,510	8.29%
8	Abbott India	4722	21	1470	99,162	8.26%
9	Astral Poly.	234	427	700	99,918	8.32%
10	Dr Lal path labs	1115	89	1300	99,235	8.265%
11	Repco Home Finance	532	187	510	99,484	8.289%
12	Muthoot Capital Services	275	378	1660	1,04,215	8.68%

Table 1.2

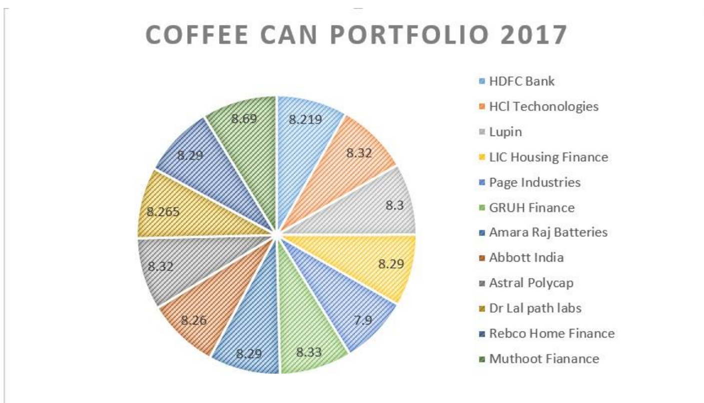
S No.	Name of the stock	Price (31 st December 2021) Rs	Market Cap (31 st December 2021) $/mn	Value of Amount Invested Rs	Change in market cap (%)	Contributio n to the portfolio at the end (%)
1	HDFC Bank	1479	110820	2,44,035	145.17%	7.1%
2	HCL Technologies	1319	45700	3,27,112	144.38%	9.55%
3	Lupin	950	5430	65,550	10.98%	1.91%
4	LIC housing Finance	369	2610	65,789	37.25%	1.92%
5	Page Industries	40431	5830	2,83,360	161.43%	8.27%
6	GRUH Finance	319	2950	2,00,013	9.25%	5.8%
7	Amara Raja Batteries	611	1400	65,377	36.07%	1.9%
8	Abbott India	18654	5580	3,91,734	279.59%	11.4%
9	Astral Poly.	2118	5670	9,04,386	710%	26.41%
10	Dr Lal path labs	3811	4220	2,77,502	224.61%	8.1%

11	Repco Home Finance	267	2300	49,929	54.90%	1.51%
12	Muthoot Capital Services	1453	8090	5,49,234	325%	16%

Narration

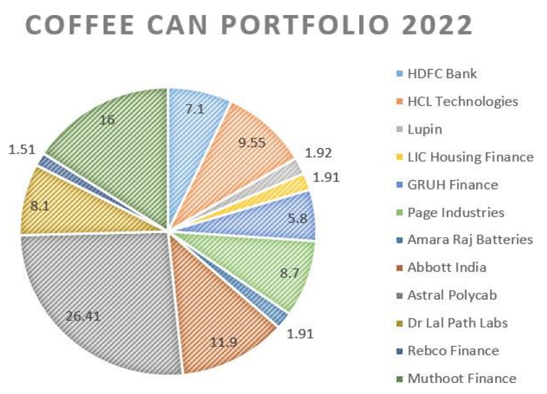
The following tables (tables 1.1 and 1.2) showed to performance of a coffee can portfolio, which was created by using basic parameters for CCP. Moreover, this basket was recommended by the authors of *Coffee Can Investing.* The value of the initial portfolio in 2017 was Rs 12,00,000, were Rs 1,00,000 (approx.) was allocated to each of the 12 stocks in the basket. Each stock in the portfolio consisted of 8.3%-8.6% of the portfolio. At the end of the research, the value of the portfolio is Rs *34,24,021*. This is *23.33%* CAGR for 5 years. The accuracy of the portfolio was *75%* as 8 out of 12 stocks gave positive returns.

Chart 1.1



This chart projects the contribution of each stock to the portfolio value at the start. The chart shows the composition of each stock in CCP in 2017, in percentage value.

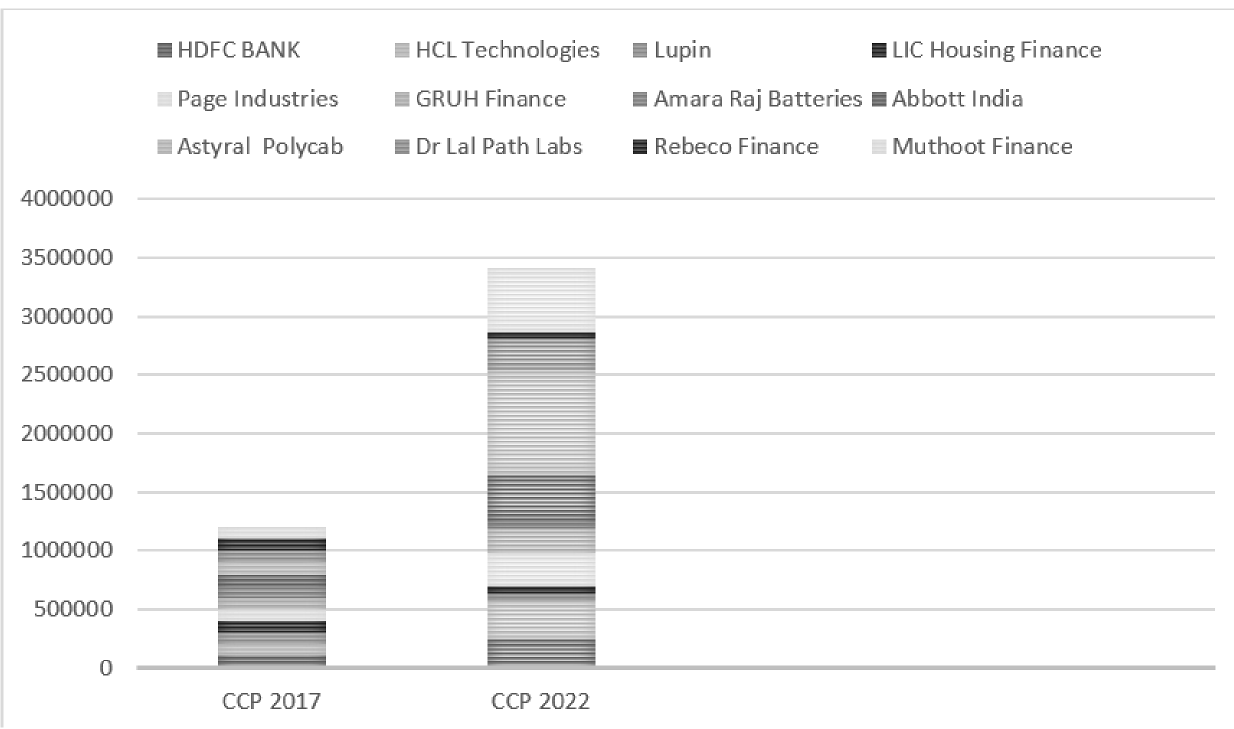
Chart 1.2



This chart projects the contribution of each stock to the portfolio value at the start. The chart shows the composition of each stock in CCP in 2022, in percentage value. Stocks like Muthoot Finance and Astral Polycab form 43% Of the portfolio. While stocks like LIC Housing Finance, Lupin, Repco Home Finance and Amara Raj Batteries only formed 7% of the present portfolio. *These charts (charts 1.1 and 1.2) prove that every stock in one's portfolio is not a winner and that 30%-40 % of stocks carry the portfolio, helping generate returns.*

Analysis of the returns CCP- 2017-22

The value of the portfolio is Rs 34,24,021. This is 23.33% CAGR for 5 years. The accuracy of the portfolio was 75% as 8 out of 12 stocks gave positive returns. The following chart will illustrate the contribution of each stock toward the growth of the portfolio. Establish the hypothesis that *Coffee Can Investing gives higher returns and beats inflation and normal returns.*



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During the period of 5 years from 2017-22, the portfolio grew three-fold in that span of time; from Rs 12,00,000 to Rs 34,24,021. The star performers were Astral Polycab, which grew ten-fold in that span, and Muthoot Finance, which grew 5-fold in that span. Meanwhile, stocks like Lupin, Amra Raja and Batteries, and LIC Housing finance were flops and lost more than half of their value. Overall, the portfolio grew at 23.33% CAGR and had a success rate of 75%.

Comparing CCP-17 to Market Index, and other asset classes

The following table will be comparing the returns of CCP-17 to market indexes and other asset classes to prove the hypothesis that *Coffee Can Investing gives higher returns than Other Asset Classes and Investments.* The returns of CCP-17 will be compared to Sensex, Nifty 50, and Gold:

Table 2.1

S NO.	NAME OF THE ASSET TYPE/CLASS	CAGR (%)
1	Coffee Can Portfolio-17	23.33 %
2	Gold	11.12%
3	Nifty 50	13.43%
4	Sensex	14.85%

NOTE- *all returns are inflation-adjusted*

CCP-17 turned out to be the best per performers out of all the options, with 23.33% CAGR. Meanwhile, the rest of the assets like equity index and commodities provided interest ranging from 11-15%.

Therefore,

Coffee Can Investing gives higher returns than Other Asset Classes and Investments.

Interpretation

As we can see from the above data if an investor had invested Rs.1 lakh in 2017 in the Coffee Can portfolio; it would today be worth Rs.2.87 lakh when compared to other assets such as Gold (which would be Rs.1.84), Debt (Rs.1.65 lakh), Cash (Rs.1.4 lakhs), Nifty 50 index (2.03 lakh) the Coffee Can Portfolio has clearly outperformed expectations than any other asset in terms of returns. From Tables 1.2 and2.1, we can see that the Coffee Can Portfolio has consistently outperformed the Sensex in terms of returns which is clearly better than the returns that the Mutual Funds and it also proves that a great portfolio does not need to have all great stocks. After analyzing the above data, we can say that the Coffee Can Portfolio is the one that not only beats the Sensex but also beats other investments such as Mutual Funds, Gold, Debt, and Cash (Fixed Deposits) by a long Margin.

VI. FINDINGS AND SUGGESTIONS

Although, the returns that Sensex has provided to an investor have been higher than that which is earned by other asset classes such as Gold, Debit, Cash or even Mutual Funds; Coffee Can Portfolio has provided higher returns than that of the Sensex consistently over the past decade (clarified in previous research and literary pieces), so if an investor made an investment in a Coffee Can Portfolio 2 decades ago then today they would have got returns which were not only higher than the Sensex but also other asset classes or even Mutual Funds.

It is suggested to an investor to make an informed decision about the stocks that they hold in their portfolio and it is also suggested to an investor to first learn about what a Coffee Can Portfolio is and make an investment in a Coffee Can Portfolio according to their Medium-term to Long term goals in life such as buying a house, a car or even retiring early. Since the returns that are given by a Coffee Can Portfolio are relatively higher than the other portfolio, Mutual Funds or Asset Classes and the un-systematic risk involved is almost diluted to nil, the investor will be able to easily achieve their Medium-term to Long term goals without applying much technical knowledge.

VII. CONCLUSION

Coffee Can Portfolio require almost minimalistic knowledge about the stock market and financial terms and can be made by anyone who is acquainted with such terms and calculations such as Return on Capital Employed (ROCE), Return on Equity (ROE), Revenue Growth etc. Investing in a Coffee Can Portfolio is the easiest way of ensuring that the risk is minimized and the return is maximized over a long period. Also, there are no commission rates whilst investing in a Coffee Can Portfolio unlike the commission rates in Mutual Funds which eat up most of the returns of the investors. Unlike Mutual Funds and the Sensex, the Coffee Can Portfolio is also secure if and when there is or would be a stock market crash or recession as the investment is made for the medium term to long term and the stock market rebounds from such events within the short term.

A Coffee Can Portfolio beats every other type of Asset such as Gold, Debt or Cash (fixed deposits) and even NIFTY, BSE, Sensex or any other Financial Product such as Mutual Funds or Exchange Traded Funds when it comes to the returns, however investors who have a short term goal or who are not patient with their investments or those who panic do not try to indulge in such portfolios and thus lose out on getting higher returns while minimising their risk. This study aimed at comparing the returns of a Coffee Can Portfolio when compared to Financial Products or Other Asset Classes and we have successfully seen that it has beaten Other Asset Classes and Financial Products by a long margin.

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