INVESTMENT LESSONS! BACK TO BASICS

Stick to the mantra of investing more when markets are low to earn higher returns, by changing your mindset or by seeking help

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In equity markets, the most important thing is the buying price. Buying cheap or at lower cost price may not just give higher returns, but also provide with higher margin of safety.

EASIER SAID THAN DONE

Lower the price you pay or lower the cost price, higher will be the returns. Apart from higher returns, there is also an increased level of margin of safety when the cost price is lower. While all of this may sound very simple, when it comes to implementing it, most of the investors tend to fail at doing so. Buying when the cost price is low or when the market valuation is cheap is the most challenging task.

Valuations tend to be cheap when there is pessimism in the market. Take any correction in the past—be it the market crash during the global financial crisis, correction post demonetisation or the most recent one following the outbreak of the pandemic—the general retail sentiment was to keep away from investing into equities. Owing to excessive fear, retail investors at such times are unable to filter useful information from the noise which eventually prevents them from making right investment decisions. In this case, it is to buy and hold.

THE THREE C'S OF INVESTING

When it comes to generating better returns in investment, an investor needs to be mindful of three Cs—Courage, Conviction and Cash. Most often what scares investors away from investing in equities is market volatility. True, volatility brings unpredictability, but it also brings the opportunity to help build wealth by capitalising on the opportunities the market presents at such times.

Courage: History has shown that retail investors do not have the courage to go all in into equities when there is a sizeable market correction. That is where courage comes in. Courage is an important element in terms of generating returns over the long term because returns are nothing but an outcome of the price you pay i.e. Profit = Sales Price - Cost Price.

Conviction: Buying at low valuations requires emotional intelligence more than market intelligence. It requires you to be contrarian and this is where conviction becomes very important. During such periods of market panic, while everybody is selling, it takes courage and conviction to go out and buy. Remember the saying 'Buy' when everybody is selling and 'Sell' when everybody is buying. Investors tend to look at equities expecting it to be a linear journey. In reality, the journey is a very volatile one. Instead of considering it as an enemy, appreciate the opportunities such times bring.

Cash: In order to capitalize on such sudden investment opportunities what is required is cash. It is advisable to keep some spare cash at all times, just in case any buying opportunity materialises. In a bull market keeping some cash may look foolish but remember the purpose of that cash.

> **"To be a successful equity investor, you need to have courage and conviction to invest when times are challenging"**

SEEK HELP

Investors who are averse to taking investment decisions can exercise simple options. To begin with, get your asset allocation in place. At all points, remember asset allocation is the backbone of your portfolio and an important determinant of long-term investment experience. So, focus on asset allocation and building a robust portfolio. Here, if you are challenged, then seek assistance through schemes such as dynamically managed asset allocation schemes. In such a scheme, the corpus is allocated across equity and debt and is rebalanced on the basis of the changing market environment. So, one need not worry about missing out on any opportunity.

Another option to try is a feature known as Booster Systematic Transfer Plan (STP), especially if you are looking to make lump sum investment in the current market times. Here, the investment made will be dynamic in nature both in terms of the investment amount and tenure. Booster STP will invest a variable amount in the range of 0.1-5 times of the base STP amount depending on market scenarios. For example: If the base STP is Rs 10,000, when the market valuation is attractive, the STP can go up to Rs 50,000 (5 times) or when the markets are expensive, the STP amount can be as low as Rs. 1,000 (0.1 times). The multiplier will be decided basis an in-house equity valuation index.

To conclude, to be a successful equity investor, you need to have courage and conviction to invest when times are challenging. To make this possible, keep cash handy. In case you are not comfortable investing on your own, use features like Booster STP and dynamic asset allocation schemes for an optimal investment experience.

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