Business Standard

Dare to take decisions

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Whether it is insurance or investments, one should not delay things because it will hurt in the long run.

In bad times, the first thing impacted is the decision-making process. Whether it is investments or purchases or anything else, one defers decisions. This is a good time to ask yourself whether inactivity is causing decision paralysis in your investing life, too.

Wherever we go, we see investors in a state of limbo. They are unwilling to commit their cash to the stock market, saying the current environment is too gloomy and they will wait for a clearer picture before deploying their savings.

Here are a few situations that should help you take the plunge:

1) Seeking clarity in investments. There is seldom such a perfect situation. Hence, our quest for complete clarity is utopian and may lead us to wait eternally. In fact, periods such as the end of 2007, when things were appearing best for India (although not for the world as a whole), was actually a bad time to invest.

Also, people say markets are currently too volatile. However there is an inextricable link between financial markets and volatility. You will rarely see placid markets and very often, whenever you do, it is merely the calm before the storm.

In waiting for that 'perfect moment' we are inadvertently indulging in market timing. Just like time and tide, markets, too, wait for no one. The best moment to invest is always known in hindsight only. In trying to avoid the pain of short-term losses, investors may experience the pain of missing a smart rally. Investors who were under-invested in February 2009 will readily concur with this.

2) There are too many macro factors which are beyond our control (inflation, GDP growth, political exigencies, etc). In letting them dictate our stance, we are not doing the one thing in our control and that is: Investing based on a pre-determined plan. Investment returns may not always be in our hands, but the process of investing in a disciplined manner certainly is.

3) If we review the performance of various asset classes over the past thirty years (whether global or Indian), we will notice in most cases assets have provided inflation-beating returns despite turbulence. Any time period under consideration has had some sort of upheaval or the other.

However, long-term investors have usually emerged relatively unscathed. Exceptions may always be there, but they merely prove the rule.

Some people try to circumvent lethargy by investing in assets which have performed well recently (such as in gold and its variants). But by falling victim to "recency bias", they are missing on purchasing assets (such as equity) available at far more reasonable valuations and chasing assets which have already performed superlatively. In doing so, they may be doing a great disservice to their financial well-being.

There is no magic remedy which will enable you to earn inflation-adjusted returns without any price volatility. You will have to roll with the punches for some time. However, it may be preferable to looking back on this current period of despondency after a couple of years and ruing the fact that you did not take the plunge.