

Business Standard

Promises to be kept in 2012

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Learn from mistakes made in the past year, resolve not to repeat them and plan for the long term.

The past year was a year to forget. There was negative news all around from poor equity market conditions to world politics and protests. While the macro economic conditions cannot be controlled you can make an effort to ensure that the mistakes of last year are not repeated and make the most of your investments this year.

The year gone by has not been a happy one for equity investors. Though the sliding markets presented a good opportunity to invest, investments were eroded by 23 per cent in 2011. But such is the nature of the game. Equity returns are lumpy and not linear. Sharp bursts of performance are followed by periods of slumber. Investors, who are lured into purchasing equities due to their high returns, often end up disappointed. This leads to retail investors' widespread aversion towards equities and smart investors buying equities, which in turn leads to the next bull market.

Given the rangebound markets, investors stayed away from equity in 2011 also and shifted to debt instruments, which were giving very good returns due to the high interest rate regime. This, when they could have looked at cashing in on cheaper quality stocks for the long-term.

While shifts in market cycles rarely coincide with the turn of a calendar year, this is as good a time as any to reorient yourself and jettison certain calcified behavioural tendencies which may be detrimental to your financial well being.

Here are some new year resolutions long term investors could make -

I will not deviate from my pre-determined asset allocation. Asset allocation is usually determined at the beginning of each year in consultation with your financial advisor. However, during the course of the year, we could see the allocation change due to changes in the market - debt and/or equity. Or, we could fall prey to misunderstandings and be tempted to deviate from the same. More often than not, this is detrimental.

In the later half of 2010, many investors prematurely broke their bank fixed deposits and piled onto equities, much to the chagrin of their financial planners. They felt that their fixed deposits were not providing enough returns. By the end of 2011, these very investors are contemplating selling their equity holdings at a loss and investing in gold mutual funds, merely because they have done well over the past one year.

Investors make this mistake time and again. They sell when the asset class is at a low and buy when it is at a peak.

'Rear-view' investing will only lead to dejection. In any given year, some asset class will always outperform others. As we are not prescient enough to know this asset class in advance, it is preferable to be invested in various assets in that proportion which suits us best, based on our risk-taking ability and goals. Revisit this allocation either once a year or if there is any change in your financial circumstances. By doing so, you will be increasing your holding of the underperforming asset (like equities in 2011) and booking profits in the ones which have performed spectacularly (gold funds).

I will invest on a regular basis. Many are irregular investors. Ideally, you should increase your investments to the extent of your annual pay hike or at least 10 per cent every year. However, most of us don't follow this norm.

Another option is the systematic investment plan (SIP). This helps you save at regular investments for the long term. Main advantage: SIPs buy at different market levels and help with rupee cost averaging.

I will not try to time the markets. Investors repeatedly try to predict the markets or use friends' predictions to change their investments. Markets are driven by many factors, which are not in your control. And hence, trying to time it does not help. It is rather a wastage of precious man-hours. We should come to terms with our inability to predict anything, let alone something as nebulous as market movements. Even the daily market watchers get it wrong many times in spite of having all possible data and news at their hands reach. Then how can you succeed without the right experience and understanding. If you do not predict you will also spare yourself a lot of disappointment.

It is preferable to channelise that energy into more productive investment for benefits in the long term.

I shall not track the markets continuously. Just like we discourage our children from being glued to the idiot box, we should also avoid listening to zillion views shown on business news channels. We end up tracking our investments continuously and getting disappointed. When you invest for the long-term with a goal, why bother tracking the investments. You should be concerned only if your goal is nearing and the markets are going haywire. Then, divert the funds to debt / safer avenues.

Moreover, 'experts' who appear on the television indulge in making predictions and their time horizon may not match yours. Finally, there is no accountability for such predictions.

I will enhance my knowledge. If you believe you are capable of taking personal finance related decisions yourself, it is imperative that you equip yourself with knowledge from the right sources. However, given the myriad options available, it is equally vital to know which sources to avoid. Do not attempt to take short-cuts by standing on the shoulders of 'experts'. You should go one step backward and gather knowledge from primary sources such as investment books by credible authors whose statements have stood the test of time.

The internet is also the most cost-effective tool, even for transactions. This could also end your reliance on 'advisors'.

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