

Want to make money? Go long term

The real problem we should be worried about is when we see greed in the markets

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These days it is becoming very difficult to understand the stock markets. The rules of the game are

changing constantly.

With the free flow of information and more participants in the form of foreign institutional investors, mutual funds and the ever-growing pool of retail investors (punters) and day traders the markets are gaining depth.

However, the institutional memory of judging the markets remains the same. Change is constant but we are unable to cope with the fact and hence unable to adjust to the changing circumstances.

There is still fear in the markets as people are anchored to the memories of the recent tech bust in the year 2000. Then again they are anchored to the Sensex of 3000 in the year 2003.

That is the reason people are unable to digest the fact that the markets have gone up to 7800. Since 2003 we are seeing the stock markets going up

and up.

At every rise from the Sensex at 3000 people have been selling, thinking that they will buy back when the market falls. However the markets have really not fallen except for a steep fall on May 17, 2004. This was also short lived as it bounced back within a couple of months and made good the loss. Now who has really made money in the markets during this steep rise?

Only those who have been hard-core investors and have stayed invested for the long term. So if you had a major portion of your wealth in stocks you became richer as the stock market started going up. Then you have the mutual funds that were always invested in to stocks, as that was their business. So as the tide turned their investments started paying and they did well which benefited their investors. So the moral of the story is that to make money in any market you will have to be a long-term player and be there in good as well as bad times. So we know that not many people have really not made money when the markets have gone up from 3000 to 7800. There was always this

Petty gains

Not many people made money when the markets rose from 3000 to 7800

The fear of losing kept them away from the markets

They made small gains but lost out on the big kill

fear of losing which kept them away from the markets or even if they entered they were quick to exit taking away small amounts of profit but missing out on the big kills.

This is what loss aversion does to investor behaviour. This is what I call the market fear mode. As long as there is fear we are going to see the markets still going up. Last week we saw some negatives in FII inflows. One would think that this would lead to a market reversal. You would be dead wrong if you felt that way. As long as there is fear we will find that the markets will rebound after every fall.

The real problem we should be worried is when we see greed in the markets. At present I don't see much greed. How does one know that there is greed? It starts from the companies. You have a host of public issues to cash on the current fads and fancies. It's not happening yet.

Then you have companies changing names to resemble their presence in the current growth industries. Remember the dot com companies? Well that is also not happening. Then we hear stories about how fast people made money in stocks. On the contrary we hear talks about how people have missed this rally and the sighs of having lost on great opportunities. Everyone is waiting for the market correction. In times of greed people are overconfident in their abilities. Each one becomes a portfolio advisor in his own circle of influence. They go on buying at every rise and expect the market to go up everyday.

Remember the dot com boom? As one fund manager shouted from the roof; Infosys will touch Rs 100,000 and Visual Soft Rs.25000. We know what happened.

Such things are not happening now. Not that people have become wiser but they have still not become greedy. That will also happen. Now that you have some idea how it happens, you will know what to do. Understanding this tug of war between fear and greed will help you to become a wise investor.

(The author is chairman of Parag Parikh Financial Advisory Services & an expert on 'Behavioural Finance')