

Wishes Ain't No Horses

The market may be sending your stock price to soaring heights, but it might not be too late before it crashes. So don't get carried away in your quest for money, says Parag Parikh

DO you remember this Chinese proverb "Whom the Gods wish to destroy, He gives them more money than they deserve?" The message has relevance in today's bull market. Driven by their success in making easy money on the stock market, many investors have turned overconfident about their ability to pick stocks, often disregarding the basics of investing. This can lead to errors of judgement and losses in the future.

There is this young man in his early thirties who heads a family of four. The market is going up and he sees his portfolio also appreciating by leaps and bounds. He believes that he is rich and has found a way to be independent. He dumps his well-paying job and decides to retire from work so that he can pursue his career in the stock market as an investor. With his portfolio appreciating so fast and giving him tax-free dividend income, why should he work? Making money in the stock market is an easier option.

His colleague, who works in the same company, is of his age and also the head of a family of four. However, he is not blessed with any inheritance. He does have a few stocks, which he has bought with his hard-earned income. The job is important to

him as it's his major source of income. He works hard to earn his salary. The sad part is that tax is deducted from his salary and the balance is paid to him. He works hard and struggles, always envying his colleague who does not work, but earns tax-free income by way of dividends.

Then you have these two retired friends. One of them was a stock investor, and invested wisely in the stock markets. He now has a decent portfolio giving him a good tax-free income. The other friend was a hardworking employee of a multinational bank. He was a regular saver and put his money, including his retirement benefits, in PPF and fixed income securities. Today, with the interest rates going down, his investments are yielding low returns. Moreover, his income is also taxable. He is struggling to keep his life going, envying his friend with a tax-free dividend income and an ever-appreciating portfolio. While on the surface, it may seem that the investors in equities are getting rewarded unjustifiably, they are simply benefiting from an unprecedented boom in the stock market. However, such good times may not last forever. Therefore, if you have been fortunate enough, please consolidate your gains rather than think that this is going to be a permanent phenomenon. Earning money is easy, but preserving wealth is difficult.

Consider the case of this company whose stock is quoted on the stock exchange. Its price is around Rs 50 in the month of January. The company sees good growth ahead, and wants to change its business model and scale up its operations.

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THIS would entail getting additional funds, and thus the company would have to go for fund raising. The big question is—at what price? The stock price is going up everyday. The management postpones the decision to raise capital by placing its shares with investors. Its greed begins to hinder decision-making. The planned expansion program takes a back seat and eight months pass with nothing being done. Today, the stock is at Rs 250. The company is waiting for it to go further up.

Officers close to the company are more interested in the stock price movement rather than focusing on the operations of the company. This also often leads to lot of rumours being floated in the market to jack up the stock price, even as promoters begin to believe that their wealth has gone up merely on the strength of their com-

pany's stock price.

This is just one example of what is happening in the boardrooms. All over, people are getting overconfident about their abilities when they see their stock prices shooting. This is inflating their egos, as they believe that their companies are doing well and their net worth is up. Alas, they are just rejoicing about this market illusion, which, one day, will fall flat. People are forgetting their

core business, being driven by the greed of their ever-rising stock prices. As an investor, you need to be aware of the environment. Before chasing stocks just because they are going up, consider that different stories can be manufac-

tured and fed through the stock market grapevine. The latest is on retail and infrastructure. Be wary of such traps.

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