Personal Finance

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DEMAND FOR INSURANCE

Pushan Mahapatra, MD & CEO, SBI General Insurance

"A workforce that is increasingly getting younger, greater awareness, better disposable income and savings will drive demand for almost all insurance products, especially motor and health."

YOUR MONEY

BRIJESH DAMODARAN

How emotional quotient plays a big role in the investment journey

IN 2019, WHILE the the 30-share S&P BSE Sensex has delivered around 14% returns, the broadmarkets could not match the benchmark's performance. So, investment returns and the Sensex returns do not mirror. Can we know why?

The Sensex comprises 30 stocks. And the investment portfolio of the investor will be the universe of stocks which will be outside of the 30-stock Sensex. And moreover, a handful of stocks within the Sensex has delivered the returns.

In mid 2018, in order to streamline the Indian mutual fund industry, Securities and Exchange Board of India (Sebi) had issued guidelines for scheme categorisation. This definitely made the existing schemes align with the guidelines issued by Sebi. For instance, it defined large-cap as the top 100 companies in terms of market capitalisation with similar guidelines for mid-cap and small-cap funds.

Category-wise returns

If one looks at the category-wise one-year return of a large cap mutual fund scheme, which is a more reflective return on account of the scheme categorisation, the

ILLUSTRATION: SHYAM KUMAR PRASAD

returns for the top 20 schemes vary from 4.3%-18%. Within the scheme also there is a large divergence in the returns. So ultimately, it is the stock selection and the holding period, which has made a difference. This is true in all the cases. The returns in majority of the mid-cap and small-cap schemes have delivered a low single digit or negative returns, with only one or two schemes delivering outlier returns.

It is said that history repeats. So let us see what were the Sensex returns in the immediate past two years. In 2018, it was 5.9% (it definitely reflected on account of the reorganisation of the schemes as per the Sebi guidelines). In 2017, the returns were 27.9%. So the one-year returns for each of the past three years did not move secularly. What about the three-year rolling returns for each of the past years. In 2017, it was 8.28%. In 2018, it was 11.92% and in 2019, it is 15%.

'Time in the market' rather than 'timing the market' must be your approach to investments

So, the three-year rolling Sensex returns reflected a much healthier picture as compared to a one-year return. All of this is data and how do we as an investor use this to our advantage in our investment journey?

Short-term vs long-term returns

Data is our friend and as one can notice there is a huge divergence in the returns in the short time frame. And in a longer time frame, the returns get normalised.

From the beginning of the year 2010 till date, the Sensex has grown by 2.40 times. The annualised return is 9.1 % and this is after the Sensex return in the immediate following year 2011, delivered a negative return of 25%. When we compare data, point-to-point, what happens in the intervening period goes unobserved.

Data is like statistics, you can use the data points and periods to effectively track the returns and then use them to make investment decisions, to plan the goals and reach milestones.

Ultimately, it boils down to stock selection and the manner in which you have maintained your Emotional Quotient (EQ) in the investment journey. It is not incorrect to say that the temperament of the investor plays a bigger role in the investment journey. And adding to the temperament is the asset allocation which plays an important role and this is what the year 2019 has reinforced.

As an investor, if you are investing in equity as an asset class, you should brace for periods of suboptimal or even negative returns. Diversification among the mutual fund scheme categories in line with the goals and milestones is the approach. And more importantly, 'time in the market' rather than 'timing the market' must be your approach to investments.

The writer is managing partner, BellWether Advisors LLP