Invest in equities when markets dip

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THE RECENT fall in equity markets over the last few weeks has forced a lot of investors to worry about its impact on their equity portfolio. It has also left them clueless about their future course of action — whether they should pull out money at this stage from equity markets before a much sharper fall erodes this value further.

We, however, believe that this weakness in the Indian equity market provides good opportunity for long-term equity investors to generate superior returns on their portfolios over the next 5-10 years.

In the shorter term, equity markets always tend to be very unpredictable and are prone to sharp movements — both upward and downward. However, over a longer time frame of five years and above, the predictability of stock market returns increase.

This is contrary to what a large number of investors believe, that the short-term in equity markets is predictable but the long-term is not. Thus, there is a tendency to give more importance to short-term trends like an unexpected interest rate increase or a bad results from a company for a quarter than the long-term trend like young population with significant saving potential or the strength of the Indian economy, which has a very small component of its GDP coming from exports.

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Let's see how you should go about building your equity portfolio.

■ **Keep it simple:** Trying to do too many things on an equity portfolio tends to add complexity to the portfolio without necessarily adding higher returns. For example, we come across portfolios with a stock portfolio running into a number of pages and small investments in a few dozen mutual funds. Most investors would do well to have only a handful of fundamentally strong stocks and a combination of three-to-five index and actively managed mutual funds with different styles and good track records.

■ **Buy only what would make you comfortable:** This comfort differs from individual to individual. Some investors are very comfortable holding stocks of large companies that they deal with in their day-to-day life such as the bank that they have close to their residence or the company that owns the coffee brand that they have every morning. It is critical that investors are comfortable with the products that they own, whether it is a stock or a mutual fund, so that they do not overreact when it corrects sharply.

■ **Be disciplined with your investments:** Over the last few years, Systematic Investment Plans (SIPs) in mutual funds have become very popular with investors. While these are excellent tools to build long-term wealth, there is no guarantee that returns over short periods of time will be positive. There is a tendency to stop SIPs when equity markets turn negative, which beats the very purpose of an SIP. In fact, investors should be looking at enhancing exposure to top-ups through SIPs during negative equity markets, so that they can enhance the overall portfolio rate of return, if they have the liquidity. And last but not the least, be patient and give your investments time to grow. Remember Rome was not built in a day.

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