Lessons from the India-England series for your investment portfolio

—Vishal Dhawan

WITH the India-England series having ended with a 4-0 whitewash for India, a significant amount of time is now being spent by experts and commentators to understand what went wrong with the same Indian team that won the World Cup just a few months ago and was the number 1 rated test team before the series started.

In just a few weeks, a captain who could do no wrong has been criticised for not talking enough to his bowlers, reputations of senior players with significant experience have been severely hit and India has been relegated to third place in the world rankings.

We believe that there are significant lessons for investors with regard to their investment portfolio from this test series loss that India faced.

1. The past should not be looked at as a prediction of the future

Investors would recollect that there were significant inflows into equity mutual funds, stocks, IPOs and NFOs (New Fund Offerings) on the basis of approximately 40 per cent annualised return over the previous 5 years till 2007.

Investors expected this to repeat over the next 5 years as well. Those who invested during that period are still seeing returns that are either negative or sub-optimal today. Similarly, investors are looking at equity returns over the last 5 years today and shunning equities as the last 5 years returns on the Sensex are below 8 per cent per annum. They should avoid looking into the rear view mirror to predict the future. In the same way, just because this same Indian team won the World Cup earlier this year and had performed well in the past in test series both in India and overseas, it does not make it an automatic qualification to continue to do well in the future.

2. Build a strong foundation

The Indian cricket team made some fundamental mistakes in England like dropping catches and carrying injured full matches, forget playing to their potential. In the same way, investors tend to make some fundamental mistakes like not planning for a contingency fund of 4-6 months that may be required in case of a job loss or medical emergency or not having adequate life insurance cover to provide for their family in case of an unfortunate event. There is a tendency to focus on investments excessively, without taking care of the basics.

3. Experience matters

Rahul Dravid was the only batsman who redeemed himself in the star-studded Indian batting line-up that failed so miserably. His rich experience of playing in English conditions surely helped him. In the same way, money managers with experience of handling money during both positive and negative economic environments can be critical, as they can tailor their responses accordingly and use their experience to their advantage.

4. Build a well-balanced portfolio

There were times where it looked like the Indian team did not have the right blend of experience and youth to cope with the conditions. In the same way, your investment portfolio needs to have a good balance of different asset classes like equities, fixed income, commodities and real estate rather than having only one of them that is significantly overweight like real estate or gold.

5. Don't focus only on the stars, track the universe of portfolio managers

The England team that beat India so comprehensively had also done extremely well over the last few years and was already the world no. 2 before the series began. In the same way, you need to look at your portfolio managers carefully and you will find that there is not just one manager who delivers all the time. There will be portfolio managers who are probably doing nearly as well as the ones you need to track them as well. In case you find that difficult, you may need to use the services of a professional advisor who tracks portfolio managers more closely.

6. Worry about the silent killers

A large number of players, though apparently fit, were obviously not so and were silent about it. They thus failed to deliver when required. In much the same way, inflation is a silent killer on your portfolio. Whilst fixed income may give you a lot of comfort and help you avoid any fluctuations on your portfolio, it is unable to match inflation most of the time and is thus unable to deliver when required for your goal.

Whilst I am sure there are multiple other lessons that can be learnt from this series loss, we believe investors should look closely at some of the above lessons in case they have not done so already.

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