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INVESTMENT NAVIGATOR

Applying Newton's law to your investment portfolio

—*Vishal Dhawan*

"FOR every action, there is an equal and opposite reaction". As I sat with my son running him through Newton's law for his science lesson, it got me thinking about how much this universally accepted law of physics tended to get applied in investment portfolios as well.

The extreme volatility that we have seen over the last few weeks with sharp swings on the downside for stock markets globally and sharp increases in gold prices have left a large number of investors wondering what they need to do now. Whether it is TV show callers that we respond to or investors that we speak to, the two questions most commonly posed to us currently are "Should I be selling equities now?" or "Should I be buying gold now?"

Whilst it is very natural to be concerned about all the news flow from a stock market point of view, especially since a large amount of it is negative, investors need to take a balanced view. Similarly, with gold prices hitting record highs each day, there is a natural tendency to want to buy gold at this point.

For virtually all other products, there is a tendency to want to buy products that are offered at a discounted price and a tendency to buy lesser of products that are more expensive. Stock markets are, however, treated very differently wherein investors tend to buy much more when they are becoming more expensive and much lesser when they become cheaper. Most investors will vividly remember 2007 when they were willing to commit large chunks of monies as stock markets kept going higher each day, and the bottoms of 2009 wherein no one was willing to buy. Most investors in 2007 are yet to recover their principal, whilst investors in 2009 have doubled their money in spite of the recent volatility. Against a long-term average return of 17 per cent per annum from equities, the five year returns from equities are in the region of 7 per cent per annum probably indicating that there is potential for attractive returns from equities over the next 5 years.

Similarly, investors who bought gold 10 years ago have seen their money grow five times over this period. However, for 20 years before that, gold gave a negative rate of return.

Our recommendation, therefore, is that if you follow Newton's third law closely, you would end up buying when others are selling and end up selling when others are buying. Following this law could end up doing your portfolio a lot of good.

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Vishal's rich experience of 15 years in the financial services industry has led him to frequently write columns and appear on television, including CNBC and Bloomberg UTV. He shares his insights and views in various leading publications, including the* Wall Street Journal, Economic Times, Indian Express, Reader's Digest, ET Wealth, Asian Age *and* Deccan Chronicle. *He is also a member of the Financial Planning Association, USA.

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