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Avoid pressing panic button with your investments

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I am sure many of us would have noticed the panic or emergency button when we use an app-based cab service. Most of us would never have had a chance to use it yet and hopefully, will never have to do so in the future either. However, the panic button that many investors end up pressing quite often is when equity markets correct sharply.

The reduction in the value of the portfolio, from a level that it was at a point a few days or weeks ago, makes different investors react differently – some think if they should exit before it goes down further, while some others ignore it but stop looking at the portfolio any more hoping it will magically stop the change in the value of the portfolio. And yet another set wonder if they should buy more to take advantage? Every investor using volatile assets such as equities, gold or real estate is likely to go through panic at some point, and the key to dealing with panic is equanimity.

The emotions of greed and fear tend to overtake many of us at these points, and cause panic. Being equanimous requires calmness and composure and the ability to go back to looking at data objectively. It's difficult to be objective at this stage, as the data that we look at during times of panic tends to be the amount invested and its current value, and the annual returns made versus a bank fixed deposit. When the returns are negative or lower than a fixed deposit, it very often leads to panic.

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So how does one deal with this panic? Revisit your financial goals. It's highly unlikely that you would have invested in equities for short-term goals that are less than seven to 10 years away. If you have done that, it is indeed a cause of concern. However, if you are investing in equity markets for long-term goals like higher education for your children or your retirement, do not panic. This too shall pass, as the nature of equity markets is to be upwardly volatile, that is, going upwards, but with significant volatility along the way.

Stay away from an anchoring bias. We tend to anchor ourselves to a certain value that the portfolio reached at some point, and measure the fall of our portfolio from that value. That may never have been the fair value of the portfolio in any case, and we therefore need to focus on how the portfolio has done over a long period of time, ideally seven to ten years, rather than measuring it against this anchor value.

Avoid discussing portfolios socially. Your friends or relatives may have very different investment needs than yours. The performance of their portfolio may also be very different from yours. Look carefully at your portfolio and weed out relative laggards and underperformers, if they have weak fundamentals, rather than holding on to losers and selling the winners.

Continue your regular investment strategy. The best time to buy units in your mutual funds or stocks is when prices are down, provided the fundamentals of what you are buying are good. Thus, it's critical to continue with your Systematic Investment Plans (SIPs) or Systematic Transfer Plans (STPs) to get the benefit of rupee cost averaging. Topping up your SIPs may work even better. Don't reach out for the panic button on your investment portfolio, but reach out to a professional financial advisor if you need to.

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