Timing the market may not be everyone’s game but here’s what could help investors

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We are today at a juncture where optimistic equity outlook and multiple rounds of liquidity rush have led equity markets to an elevated valuation. (Image: REUTERS)

By Dinesh Pangtey

We are today at a juncture where optimistic equity outlook and multiple rounds of liquidity rush have led equity markets to an elevated valuation projecting us a far optimistic economic recovery, whereas actual macroeconomic indicators indicate very different picture. Indeed, the Indian macros have a long way to catch up with the high valuations of the equity market. As a result, any setback to the economy e.g., second wave, has elongated the recovery process thereby exposing equity market to risk of corrections. On the other hand, positive developments on the capex, inflation, fiscal deficit, divestment plans etc. may take the valuation of the equity market to higher level. Thus, investing in such times could be tricky.

Before addressing this dilemma let me first touch upon the basics of investing. Investing without a purpose and goal is most common mistake investors tends to do. The first and foremost thing Investor need to do is to define their objective of investment. This brings clarity to investor's vision, which enables them to take calculated risk. Thus, defining the purpose of investment is first step towards successful investing.

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Now coming back to our question, well, I would like to see this as a part and parcel of the long-term growth story of India. To me, these events are nothing more than investment opportunities. If you are convinced on the relatively faster recovery of India as compared to our peers and if you are committed towards long term commitment in India equities, these events must not bother you. In fact, investors must capitalize on such opportunities.

Long term game

In my opinion, the high valuations, to a large extent is factoring in long term measures taken by our government, the result of which we may see in near future. Measures such has multiple rounds of financial support to curb pandemic led slowdown, promising divestment plans, much awaited listing of LIC of India, regulatory initiatives like recapitalization and privatization of PSU banks, relaxations in regulatory norms for banks and Real estate sector, introduction of Performance Linked Incentive (PLI) scheme in several sectors is expected to give impetus to the growth going forward. Government seems to be stepping its foot in the right direction. In fact, we are witnessing some green shoots already in the form of highest GST revenues, strong recovery in auto sales, improving trade balance, SIP flows touching record high of Rs.9200 crores in month of March 2021 (source: AMFI https://www.amfiindia.com/). This coupled with expected near normal rainfall will lay solid foundation for faster economic recovery in coming years. These facts corroborate that long term growth is intact. Hence, I urge investors to invest in Indian equities. Ideally for retail investors, investment through SIP is the best way to participate in equity market. One of its advantage is that it helps in mitigating volatility in the equity market.

I believe investment yields best return only if it is done over a long period i.e., 8-10 years. Hence investors need to have a vision and discipline to become successful investor. Longer period investment coupled with vision and discipline helps one to create a corpus through value accretion and making most out of the power of compounding. Another advantage of long-term investing is that it gives opportunities in volatile market to re-enter. Investors should continue to do SIP while look for sharp market corrections as an opportunity to invest lumpsum in equity funds. As I would like to say, *you may never be able to time the market however through long term investment, you might be able to time the opportunities*. The recent fall in the equity market was a perfect example. Long term investor would have accumulated more by investing more in the crash.

The best way to make most out of India’s equity market potential is to invest through SIP in diversified fund. Equity market continues to show buoyancy. However, one cannot anticipate which sector might outperform others. Thus, it is better to diversify your portfolio across funds like Large cap, Mid cap, Small cap, Thematic funds etc. SIP in above type of mutual funds shall ensure investor do not miss any significant rally in any particular type of sector/ company/ theme. Diversification not only helps you to broad base your investment, but also reduces risk of concentration in particular sector/ company/ theme.

Investment requires analysis

Investment in equities demands data and facts driven approach. Fundamental investment requires investors to have higher level of involvement and hence is no different than any full-time job. It is almost impossible for retail investors to do fundamental research along with their current profession. That is where role of Mutual Funds become important. Mutual Funds have a dedicated workforce in the form of fund managers who actively manages investor’s money and seasoned analysts having hands on experience on different sectors continuously looking for investment opportunities. Rigorous fundamental analysis, backed by investment philosophy, monitored through multi-level appraisal process helps Mutual Funds to efficiently identify opportunities and threat in the market and take necessary actions. Mutual Funds have been in the service for decades making retail India financially independent. Hence, I would urge Investors to trust the capabilities and invest in equities through Mutual Funds.

Investor may also look for professional advisory service having expertise in providing investment services to retail Investors. Be open to them about your objectives, share your vision, return expectation and risk appetite with them. Advisors may share their knowledge and outlook on the markets. After thoroughly discussing with the advisors, advisors shall help you on asset allocation mix to best suit your vision, return expectation and risk appetite. Thus, with the help of financial expert you would be able to build a well-planned portfolio.

To sum up I would request investors with a long-term horizon, to build discipline through investing in SIPs across funds and build corpus by maximizing the power of compounding. Meanwhile Investor should also look for market crash or corrections as an opportunity to re-enter in the market. Avoid direct investment in stock markets unless experienced. Believe in the expertise and caliber of Mutual Funds. As far as possible take help from financial experts to plan your investments.

Investing with a purpose, commitment for long-term investing and choosing right channel of investment are the milestones towards the path to financial independence.

(Dinesh Pangtey is the CEO of LIC Mutual Fund Asset Management. The views, thoughts, and opinions expressed in the article belong solely to the author. Please consult your investment advisor before investing.)