

Ignite the power of patience
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Tushar Pradhan

Every time the market posts an alltime high, it is promptly followed by a frenzied curiosity to know whether the rally has got over, finally. While this is a valid question, a more prudent question will be to ask how many astute investors really exist in India today.

In most markets, as in India, there are two types of investors - the long-term investor and the short-term investor. Opportunistic investors take advantage of short-term market overvaluation (to exit) and market undervaluation (to enter). Sadly, anecdotal evidence suggests that the former variety is a minuscule minority compared to the latter. But the success rate of the long-term investor compared to the short-term one is rather embarrassing for the latter category.

In other words, investors who diligently stay invested in both bear and bull markets have demonstrated time and again that average returns by pursuing this strategy have been higher than trying to time the market. There are several studies that highlight this fact, but sadly, there are not many who have either the patience or the required stoicism to follow this highly profitable, but equally boring strategy.

Most investors do not experience high returns from equities in their individual portfolios simply because majority of them enter the market after it has had a huge run, and investment returns over the subsequent intermediate period following the surge are always below average. Also, most investors simply do not possess the necessary frame of mind to stay put for the long term.

More easily understood is the fact that even from the dizzying height of the Sensex in 1992 at an astounding P/E of nearly 42 times one-year forward earnings, possibly the worst time to invest in the market, the index has returned a compounded return of nearly 9% for the subsequent 15-year period. So, investors need to focus on their specific needs to assess their entry and duration in the equity market.

Since the Indian economic scenario has been discussed ad nauseam, I won't elaborate too much on the subject. But it is important to note that investing in equities is a direct participation in the ownership of enterprises. If one believes even a small bit of the voluminous data on the potential growth in the Indian economy, one would also assume that owners of such enterprises will do well.

Our understanding of whether the market is overvalued also assumes that we

know all end games and possibilities. But that, as I am sure most will agree, is not known at this time.

Equity investors should focus on long-term growth and assure themselves that they are not paying unrealistic valuations for that growth.

They should also ensure that they have a long enough horizon to realise those expectations. Believers in the India story should weigh these parameters before allocating their savings to equities.

The author is CIO-equities, AIG Global Investment Group, India.