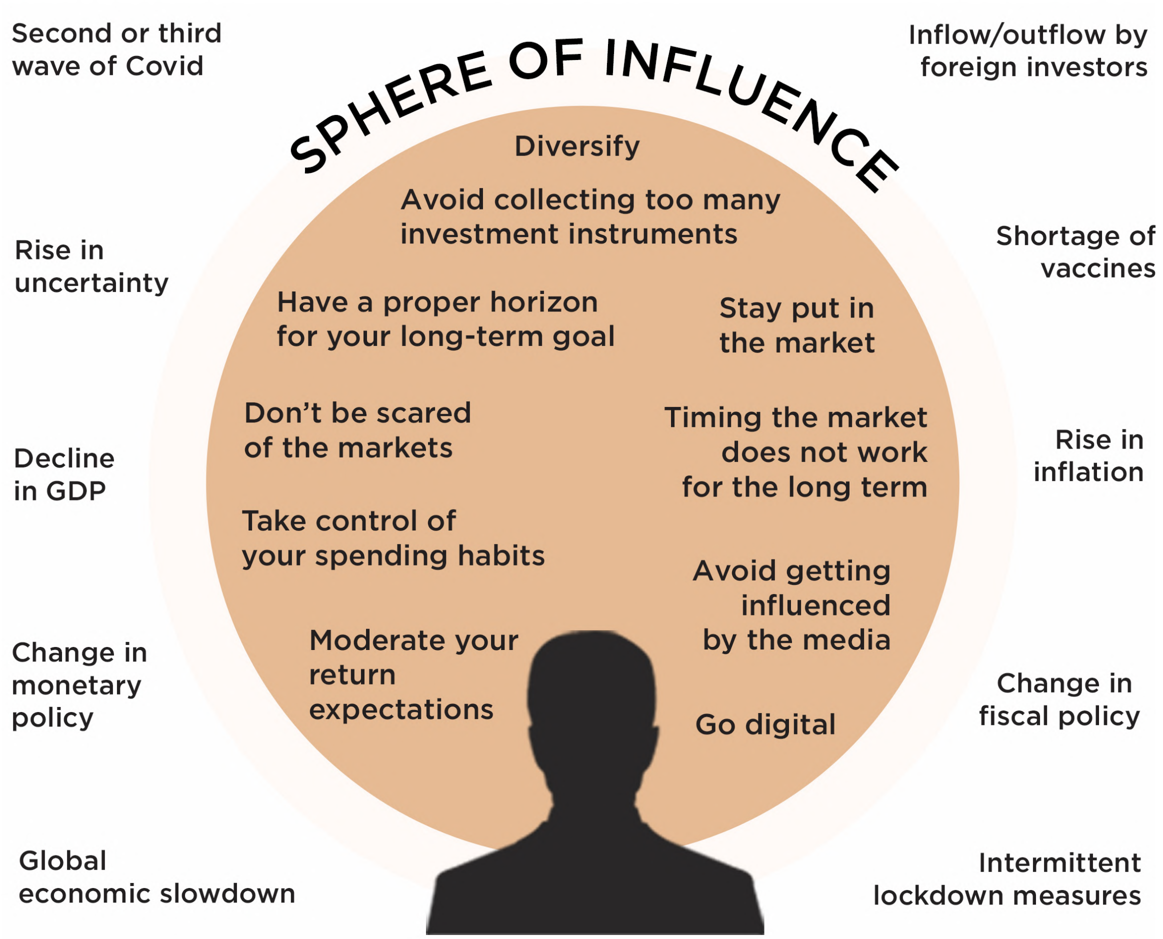
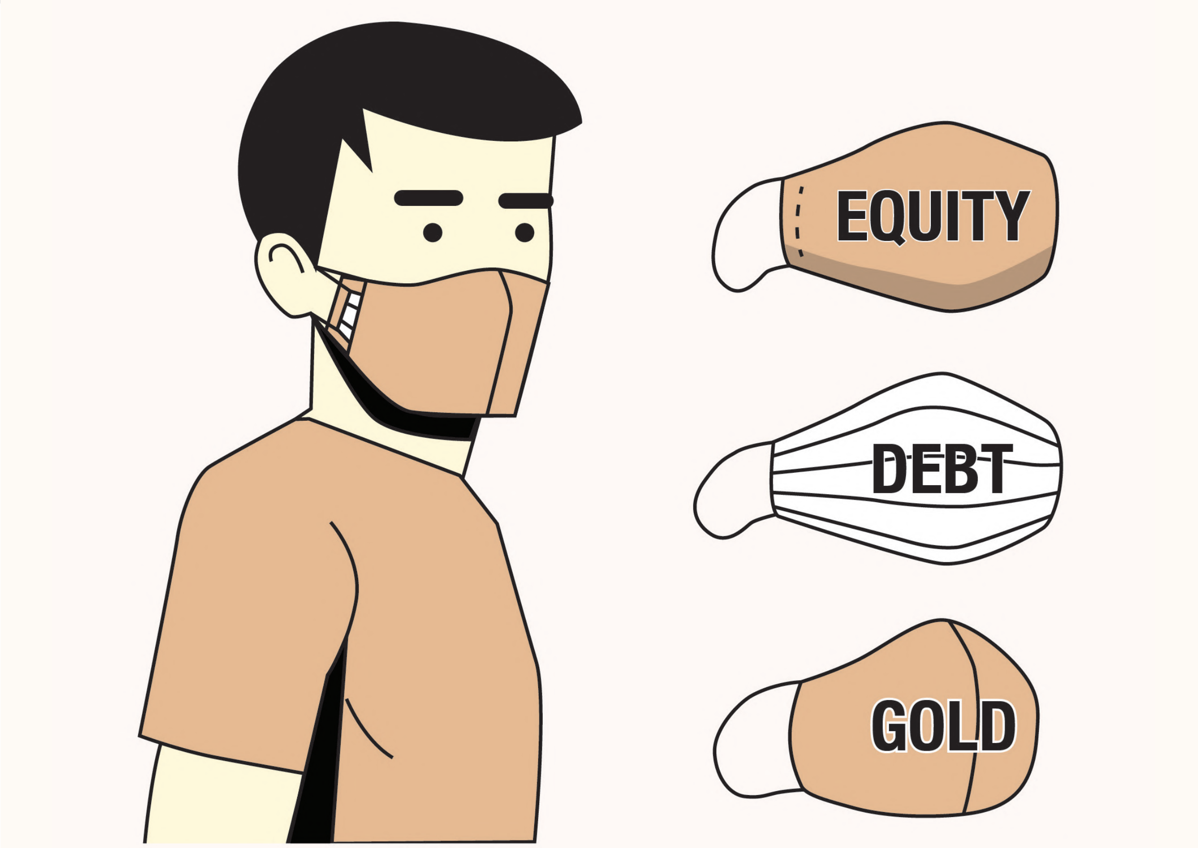
Value Research

10 FINANCIAL LESSONS FROM THE PANDEMIC



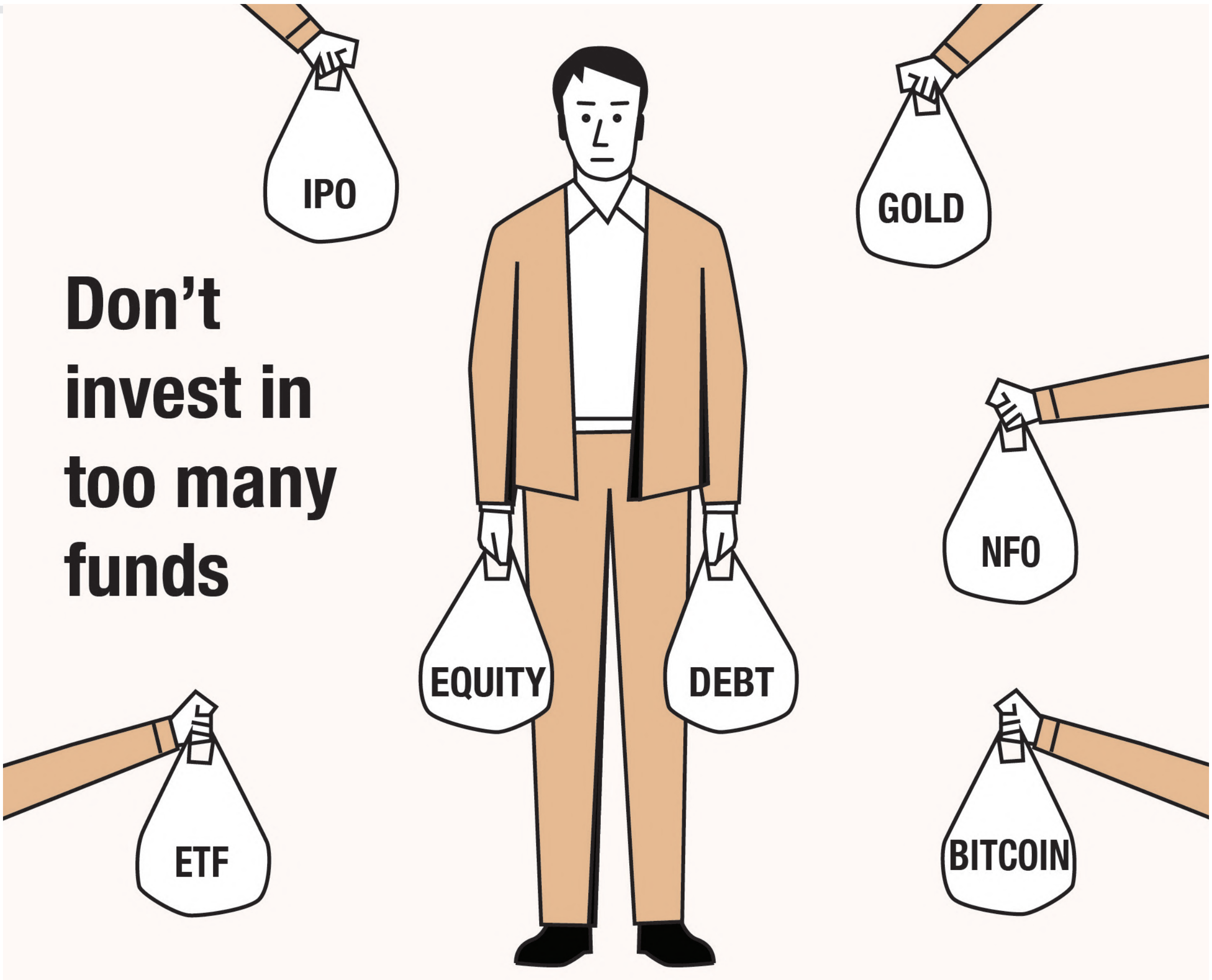


A multi-layered portfolio has better efficacy

1

Follow multi-layered masking for safety

Towards the end of 2020, WHO advised people to use multi-layered masks or masks with more than one type of fabric for better safety. Similarly, in the field of investment, diversification can ensure that our investments are protected from any external 'infections'. Instead of relying on a narrower investment mandate, we need to make sure that our investments have enough capacity to absorb the shocks emanating from one single instrument/asset class in the portfolio.



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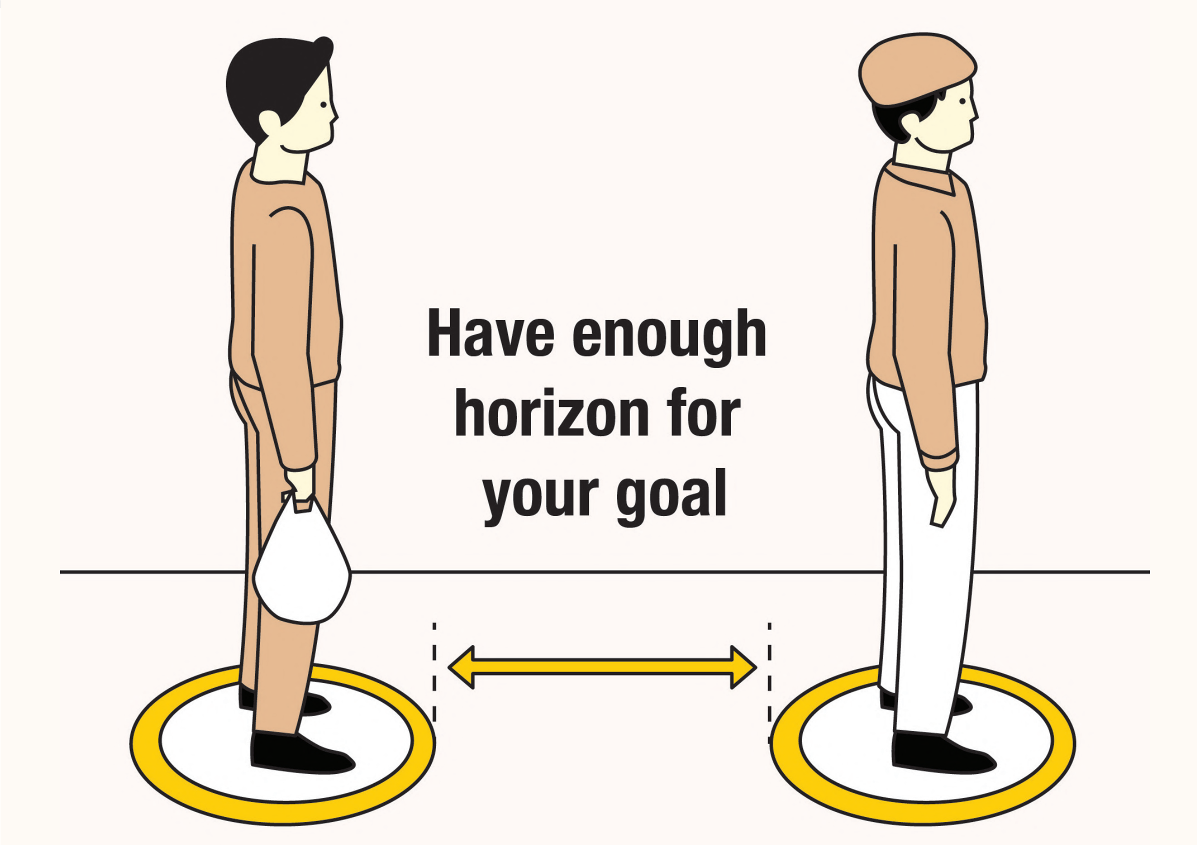
Avoid the crowds

Although diversification is important, overdoing it is of no use after a point and can also become counterproductive. In order to achieve sufficient diversification, it is enough to invest in four-five funds, as any number beyond that only increases your work of managing them.



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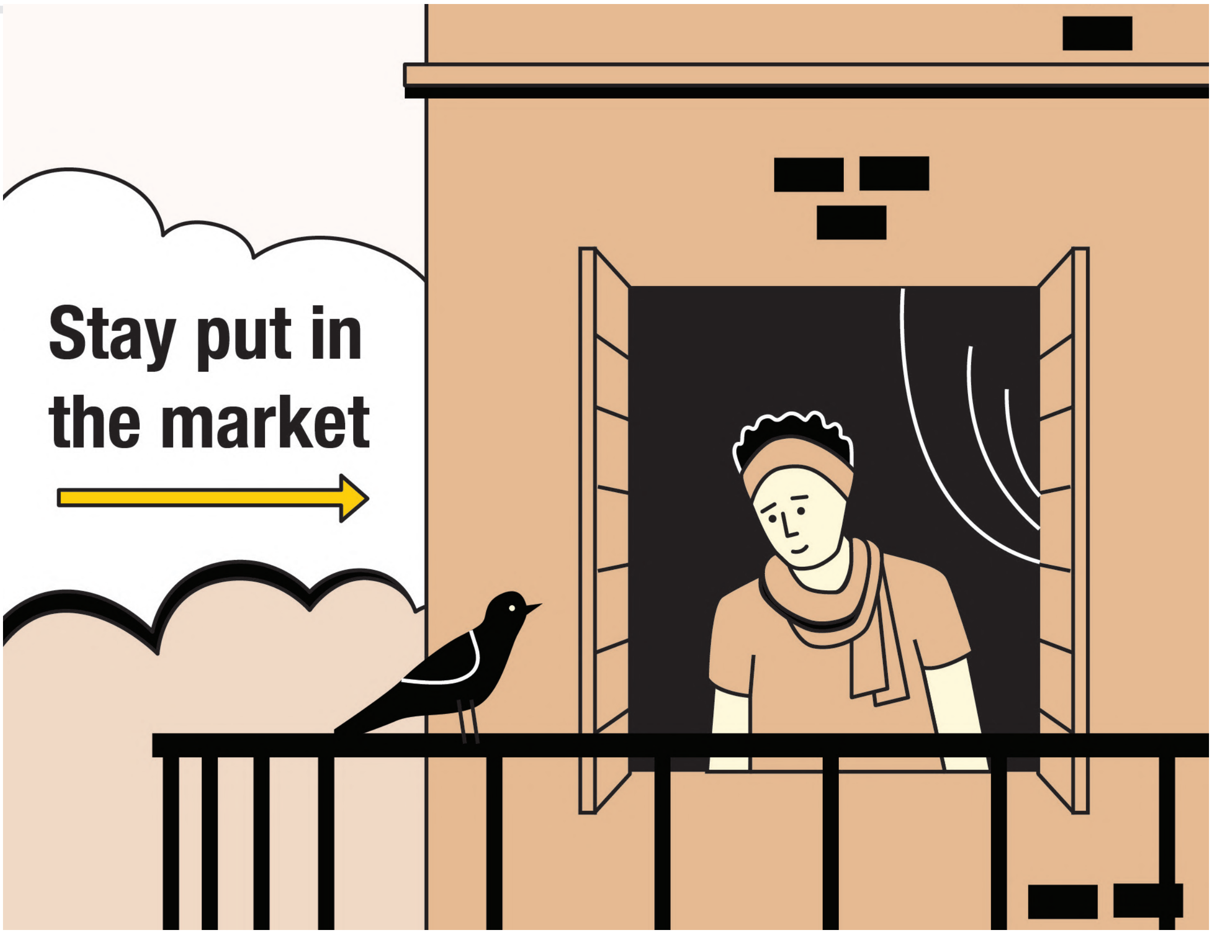
Maintain social distancing – a need, not an option

Social distancing is an effective tool in containing the spread of the pandemic. Similarly, to ensure the effectiveness of your equity investments, you should have enough 'distance', i.e., time horizon. Consider investing in equity only when your goals are at least five to seven years away so that you can give your investments ample time to grow. In the short term, equity returns tend to be volatile. But in the long run, this volatility smooths out and returns become stable, thereby paving the way for investors to achieve their long-term goals.



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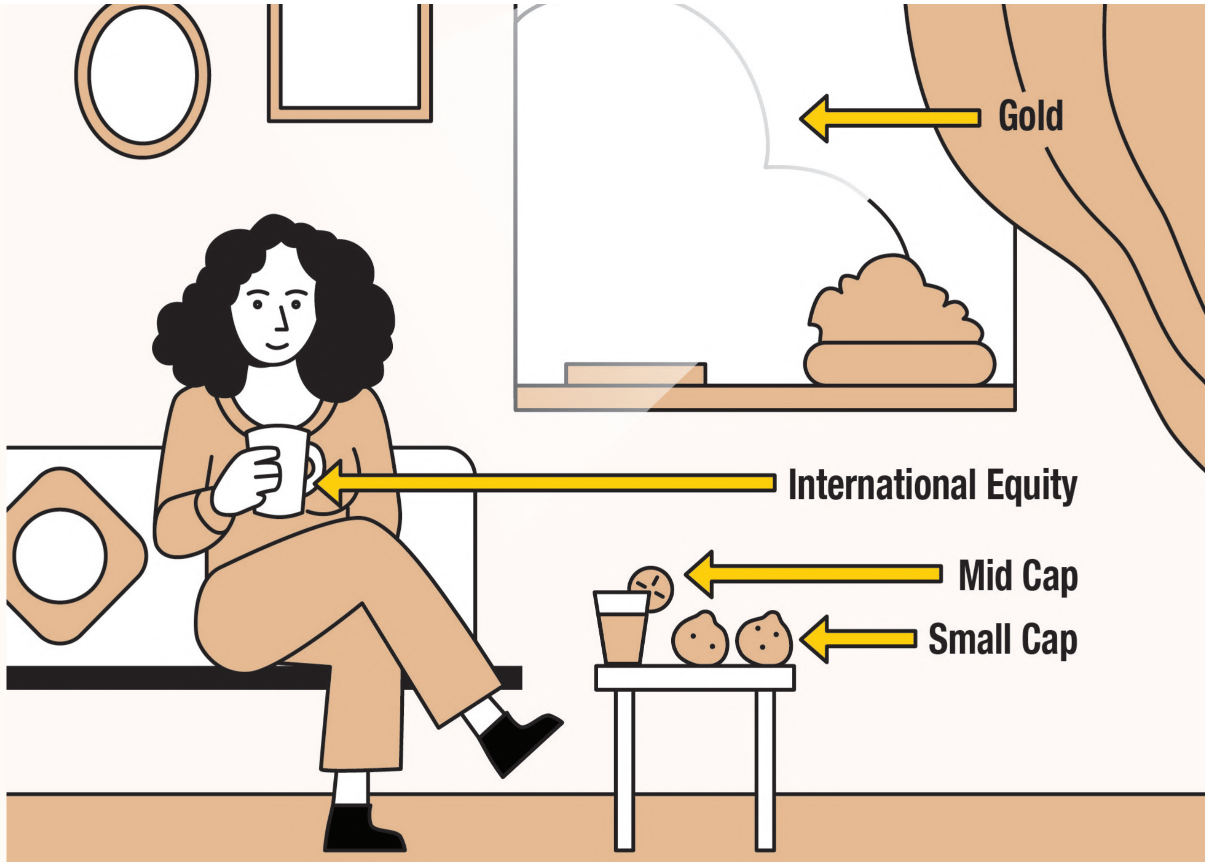
Stay indoors as much as possible

During the lockdown, most of us were forced to stay at home to reduce the spread of the virus. Similarly, while investing in equity, if you do not stay invested in the markets, then it would ultimately affect your financial well-being.

Timing the market and overactivity are harmful to your returns and it is always better to stay invested for the long term. One should note that returns from equity come in spurts and don't accumulate like returns from debt. You can have long periods of downturn or stagnation but then, the market rebounds all of a sudden. If you are sitting out of the market during such periods, your overall returns will suffer.



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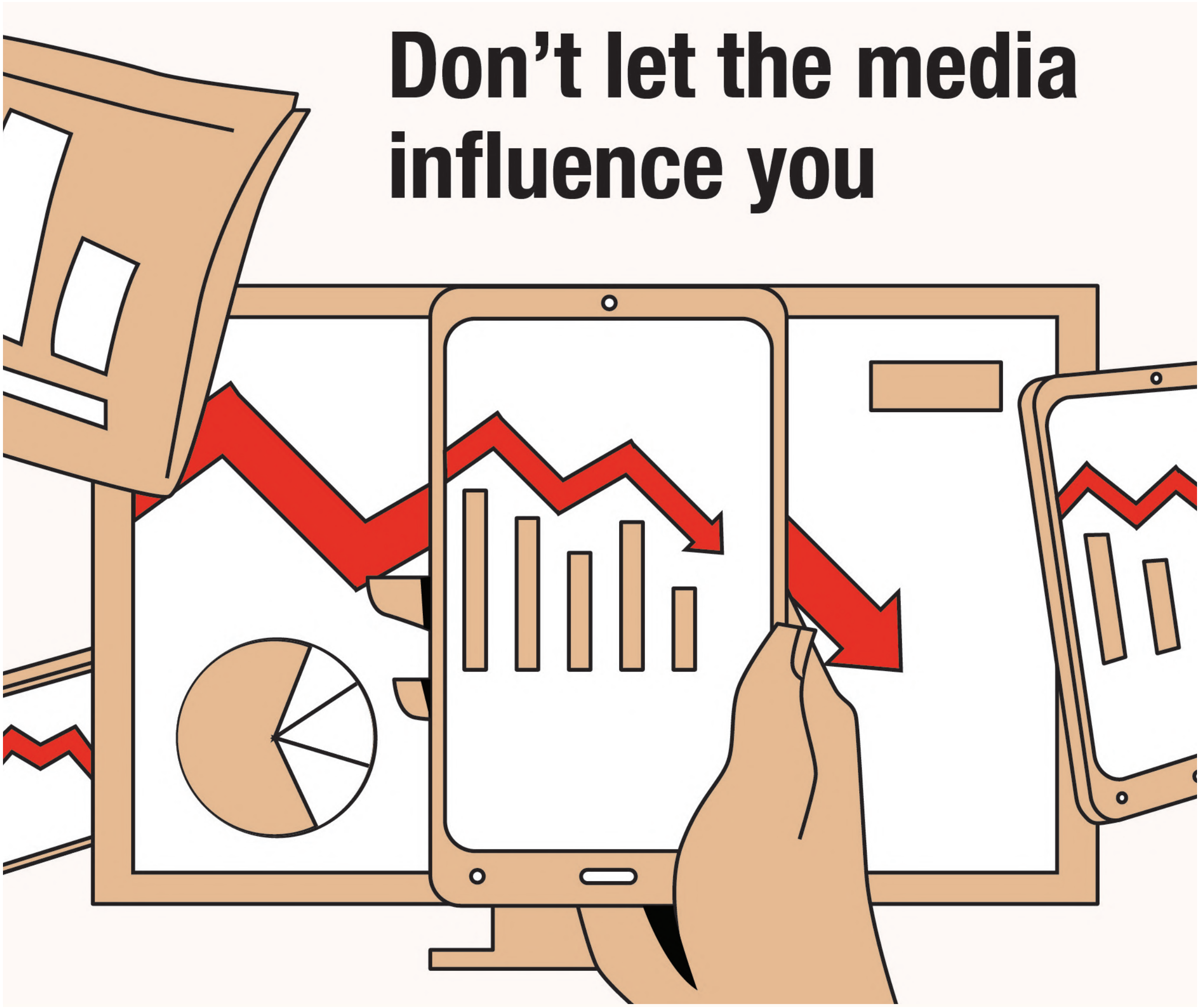
Be indoors but stay healthy

Staying indoors has been the directive of most health organisations around the world during the pandemic. But they have also realised that its side effects have resulted in reduced immunity for many. Similarly, debt and gold are traditionally considered as safe havens, but in the year gone by, we saw that even they had not been immune to the market trends and mishaps. The portfolios with only debt or gold could actually harm one's return earning potential over the long term.

Just as vitamin supplements and minerals boost your immunity, allocation to international equity, mid and small caps, along with some minimal allocation to gold as a hedge, will also boost your overall financial immunity. However, don't go overboard on them. Strike the right balance of the asset classes to immunise your portfolio.



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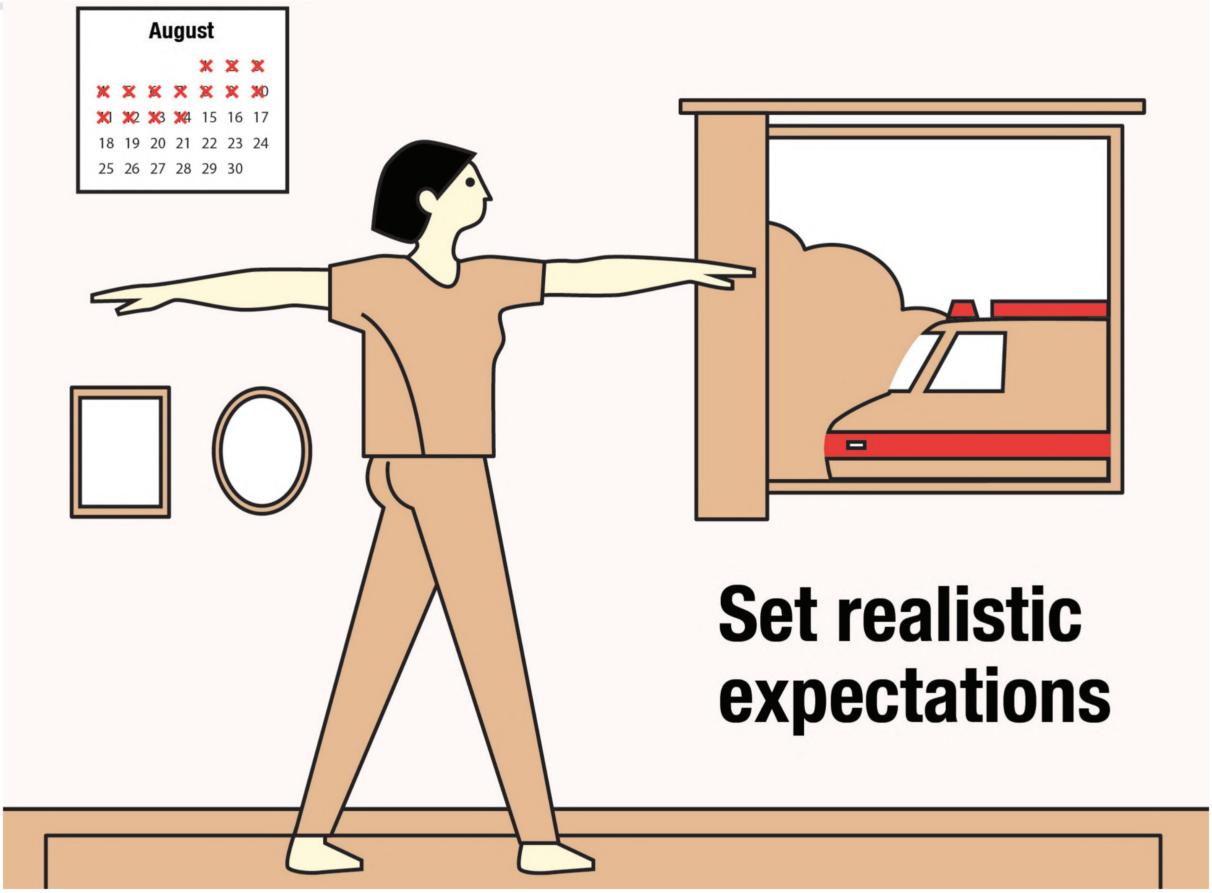
Don't get influenced by the media

Stop spending a lot of time listening to the experts. It is good to be well-informed. However, information overload ultimately leads you to make regrettable mistakes. Panic and pessimism have never helped anyone. This holds true not only for people grappling with the pandemic but also for those trying to be seasoned investors.

7

Avoid finding quick-fix solutions

One needs to be careful about not getting influenced by the hokum measures prescribed by unauthorised sources to deal with the virus. Similarly, many investors turn to an easy way to get in and out of the market based on their opinion of the market movement. However, avoid timing the market. Remember that the best time to invest in the market was yesterday. So, do it today instead of waiting for tomorrow.



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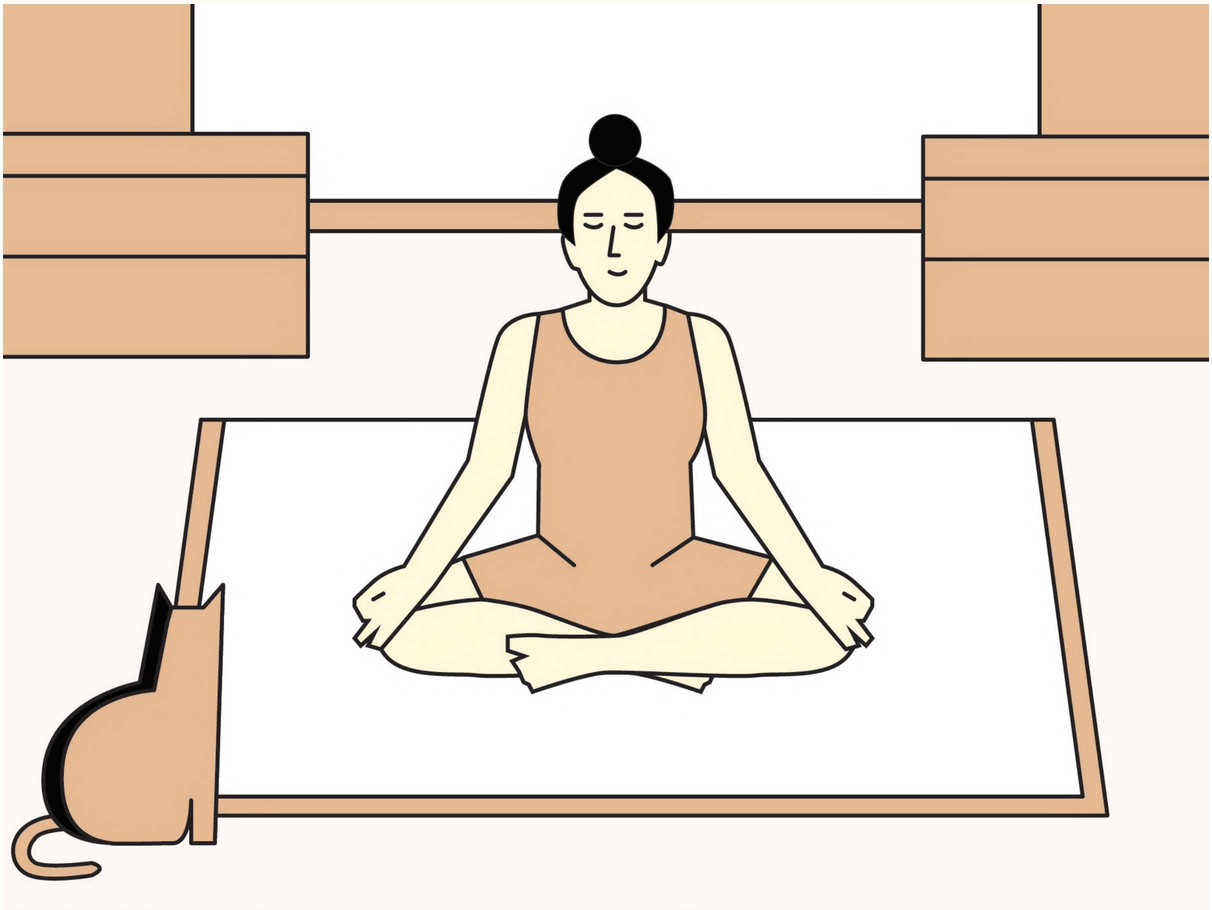
Moderate your expectations

With the inoculation drive gaining pace, many may be lulled into a false sense of belief that the pandemic would come to an end soon. However, we need to understand that it may be here to stay for a while and hence, we should continue following the safety guidelines.

Similarly, even though markets have recovered since their fall when the pandemic struck, we've experienced that quick, dramatic declines are not easy to stomach. Even though chances of them happening are less now, slow and steady declines over longer periods can test the patience of even long-term investors. So, continue with your SIPs. Also, it may be prudent to moderate your long-term expectations from your equity allocation.



Minimalism helps in the long run

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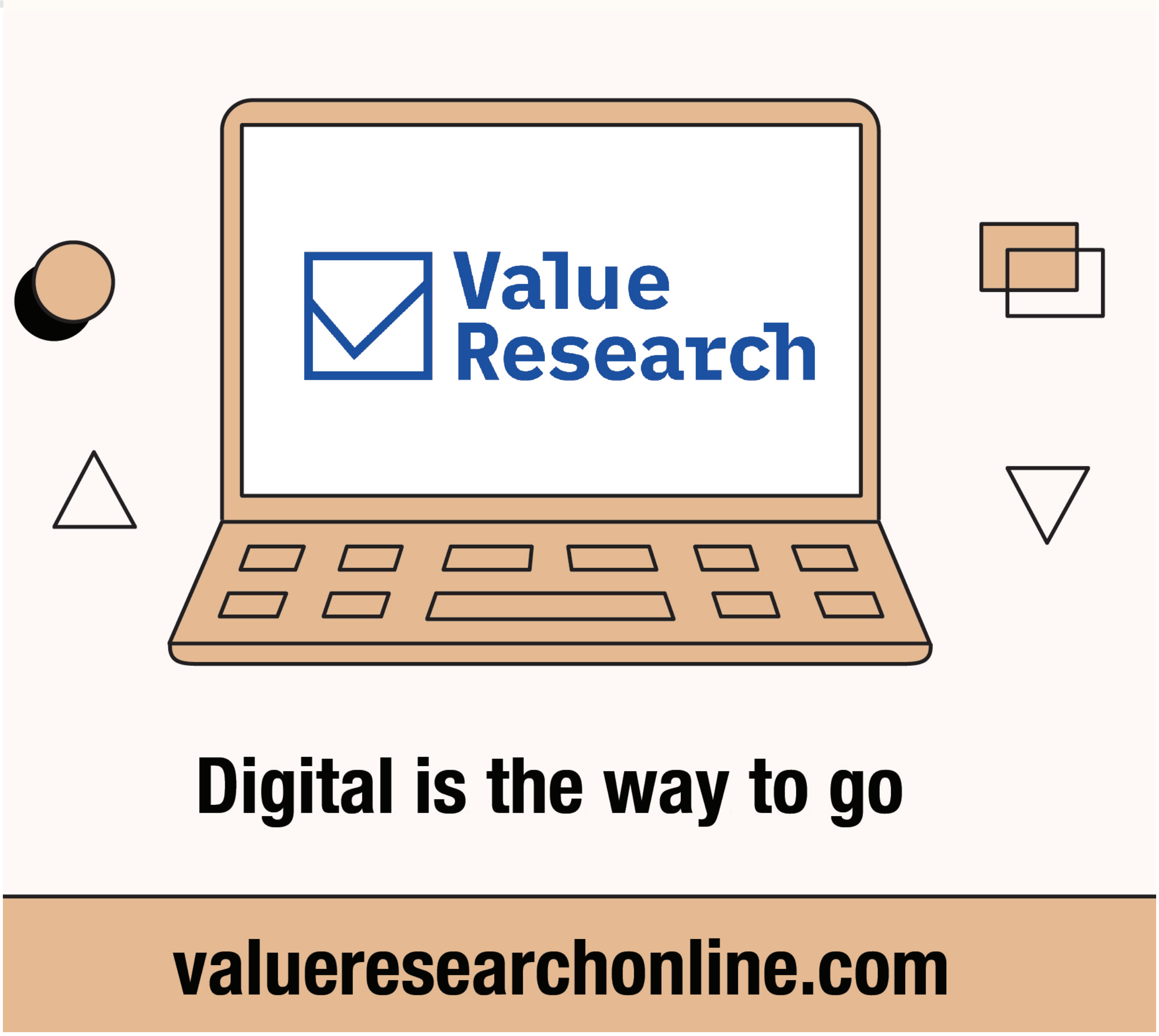
Try your hand at a bit of minimalism

The year 2020 made us realise that we could survive with basic amenities. Based on the experience, we can definitely reduce our discretionary spending and renew our zest for saving. To a great extent, this would enable us to invest more in our life's bigger goals and dreams.



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Go digital

With technology having become a part of our life, don't hesitate to embrace it. If you can pay bills, shop grocery or book tickets online, you can also invest through the digital medium. If you aren't digitally savvy yet, don't shy away from learning, as it is an important skill to survive in today's information age. For those seeking assistance in managing their own investments, our Value Research Premium service is there to guide them along the way to make the right decisions.