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"There was never a good war or a bad peace." - Benjamin Franklin

Dear Investors and Advisors,

While November 2018 was, thankfully, a quieter period compared to the previous two months, we can't deny that for the last three months, and actually much of the year, we have seen a constant state of flux. Credit downgrades and a default, sharp corrections in single stock, unexpected movements in currencies and commodities, and a lot of news has just kept us on alert. And with the oncoming state election results, we will see a rounds of pre-exit poll, post-exit poll, and post poll analysis that will keep us on edge, even though predicting elections is incredibly futile, and the medium term impact of elections on markets is much smaller than we think. History is witness, however, that an excessive state of flux, war, or excitement does very little good, and in matters as important as money, what we actually need is a little more peace. And while external factors will always exist, there are things that we as investors and advisors can do – that rest in our control – to achieve just that little more peace in our portfolio.

Protecting downside is the first element of PEACE. Many war stories talk about the cost of war – it is important to win a war, but wars can be fatally expensive if you lose too many of your troops in the process. The same is true of investing – in the journey, if you lose much more than your risk appetite, you may be too scared to hold on for the long term, and in the best of years, markets are volatile and cyclical. Also the mathematical reminder that if you lose 10%, you need to make 11% to come back to par, but if you lose 50%, you need to make 100% to come back to par should never be forgotten. Protect your downside through a single word – Asset Allocation. Investing in a diversity of asset classes, with debt being an important part of your portfolio or using asset allocation funds is the easiest way to ensure that you don't lose more than you can chew while investing.

Emotional control is the second element of PEACE. Even the smartest of men and women are emotional beings, and make emotional mistakes while investing. There is a famous story of how the genius Isaac Newton, bought shares of South China Sea at 180, exited the stock at 360, saw his friends getting rich while holding it, and re-entered at 680. The stock then reached 1050 and subsequently crashed. When did Newton exit? At 175. EQ is far more important than IQ in investing, because greed and fear are such powerful emotions, and the desire to follow the herd is very human. Find ways to exercise emotional control and resist the urge to act. In fact, develop the urge to be counter cyclical – the difference in SENSEX returns between investing at the peak of 2007 and the bottom of 2009 is 6% annualized, 7% if you had invested in 2007 and 13% if you had invested in 2009.

Automated investing is a third part of PEACE. Automation is a wonderful thing in any domain – it takes the burden of activity from us, it saves time and it is cost effective. In investing, where there is a constant desire to react to the news around us, the more we automate, better it is! We are constantly trying to time when to invest – should we wait for another correction, only to realize that fear takes over when the correction actually occurs, and then by the time the environment has stabilized, markets have run up again too much, only to wait for another correction. Timing is futile, and investing constantly is the easiest answer for most of us. The mutual fund industry has created a range of features to do this – SIPs, STPs and SWPs also for disciplined exits.

Chase consistency is the fourth part of PEACE. A little bit like fashion and social media, trends in markets keep changing – if infrastructure was the flavour of the season in 2007, it was gold in 2011, and mid-caps from 2015-2017. In a simple exercise, if you had just invested in the "flavour of the season" fund from 2007 to 2018 every year – and we used 7 flavours in our study, you would've realized a 9.9% CAGR. If you had instead just invested in the NIFTY TRI in this period, you would have returned 11.29% CAGR. Chase simplicity and change consistency, especially in a country like India where the opportunity across segments and sectors is large enough, that the index growth itself will give you a very respectable return.

Expert advice is the last and the most important part of PEACE. During my recent trip to Kanpur city, I addressed an investor event where a young investor asked me, "There are 1000s of MF schemes and 40+ AMCs, how do I choose the right one?" Surprisingly, at the same event, present was a very famous orthopaedic surgeon from North India. I asked the young investor, if you had a knee problem, would you Google the answer and try to fix your knee yourself, or would you talk to the well qualified gentleman standing next to us? His answer was clearly that he would consult the expert. I asked him then, "Then why is it different in investing?" We are happy to consult experts when we have a tax problem, a legal problem or a medical problem, then why not when we have a financial problem? Forget us, even the sharpest of minds relied on advisors like Chanakya for political advice. Just like in most domains of life, in investing, we at Edelweiss AMC truly believe, #AdviceZarooriHai. The advice of an expert will provided you a sounding board during good and bad times, and an external perspective, that will give you peace and comfort.

Itihaas gawah hai that peace is important – when kingdoms were in a state of war and flux, very little development happened, but when there was an environment of peace, arts, culture and development, ultimately people blossomed. Let us try to make our investing journey peaceful, so that the rest of our life around us blossom – because money is a part of life, not life itself.

Wishing you happy investing and peaceful investing!

Regards,
Radhika