'Give Time To Your Investments To Perform'

In an exclusive with BW Businessworld, Suresh Soni talks about common investing traps, the nuances of SIP investing, and on whether 'timing the market' is really important

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Suresh Soni, CEO of DHFL Pramerica Mutual Fund, is a seasoned expert in the Mutual Fund industry. Prior to taking on the reins at DHFL Pramerica, he served as the CEO for Deutsche AMC, and has extensive Fund Management experience prior to his managerial stints. In an exclusive with BW Businessworld, Soni talks about common investing traps, the nuances of SIP investing, and on whether 'timing the market' is really important.

Q1. You've been associated with the Indian Mutual Fund industry for over two decades now. What are the key lessons you've learned about the typical investing traps that retail investors tend to fall into, which hold them back from creating wealth from Mutual Funds?

Mutual Funds have proven themselves over the last few decades as a credible avenue for creating long-term wealth. A large number of retail investors have participated and benefitted in the process. However, especially in volatile asset class like equities, sometimes emotion comes in the way of rational investment decisions. We believe investors will do well to keep in mind a few points to further enhance their investment outcome. These are:

1. Give your investments time to perform: Most households in India recount the increase in value of their investments in Gold and property. While value of Gold has appreciated by ~21x since 1979, BSE Sensex has appreciated by ~250x over the same time!! Give time to your investments to perform. Long-term wealth creation from equities are unmatched by any other asset class. While equity returns are attractive, well managed equity funds tend to outperform underlying indices. Our flagship equity fund, DHFL Pramerica Large Cap Fund has grown over 12x in last thirteen years since launch even as Nifty is up 7.1x.

2. Invest regularly: Often time we see a surge in inflows into equity following a sharp rise in market, whereas there are virtually no flows when equity valuations are low. The rational behavior should be the other way round. There seems to be excessive focus on recent market performance. We will do well to avoid rear-view mirror investing. One of the best ways to avoid this pitfall is to use the SIP route, keep investing regularly for a long period of time. The SIP way of investing keeps out emotion from investing, and the investor automatically buys less when the prices are high and more when the prices are low. Equities are a great asset class for long-term wealth creation. However very few investors choose to remain invested for long-term. Over last few years, we have seen a welcome increase in SIP investments. We believe it is indeed one of the best ways of investing and building long-term capital.

3. Importance of Asset Allocation: An individual's asset allocation depends on his/her ability to take risk and the willingness to take risk. Parameters such as age, qualification, income, current assets and liabilities, marital status, number of dependents, need for liquidity, etc play an important role in deciding the right asset allocation. Investors need to avail services of a financial planner/advisor to assess their risk profile and get the right asset allocation. Not only does proper asset allocation help you achieve true diversification but also helps you earn better risk adjusted returns.

4. Do not make "the best" an enemy of "the good". The investor is well advised to aim to have a portfolio of "good products" rather than try and get into "the best" product. The combination of products, of course, would vary from investor to investor. Seeking to get into in the "best" product unfortunately induces a high level of churn in the portfolio, increasing costs, and thereby reducing overall returns.

How much emphasis should a retail investor place on 'timing the market' when it comes to Mutual Funds? Is it really always a good time to invest in equity mutual funds?

When it comes to investing directly or through mutual funds it is important to note that time in the market, and not timing the market, is far more important for long term wealth creation. Even an expert investor, finds it extremely difficult to predict the swings of the equity market, given its dynamic nature. We would advice investors to build a diversified investment portfolio of Mutual Funds in line with their financial goals. Investors need to define their financial objectives, time horizon and risk tolerance and work out an appropriate financial plan. There are experienced financial advisors who can help them with this. Ideally investors should use a combination of Mutual Fund schemes for various investment periods such as:

We've noticed that investors tend to start SIP's towards their long term goals, only to stop or redeem them when markets head south! In the light of the highly liquid nature of SIP's, are they really an effective long term wealth creation tool? What can asset management companies do to minimize SIP stoppages?

Over the years, systematic investment plan or SIP has proven to be the best tool to make the most of the equity market through its ups and downs. It is the best way for new investors to approach the equity market for long-term wealth creation and attaining financial goals. However for what is supposed to be a simple idea, there are way too many misconceptions about the SIP (Systematic Investment Plan) way of investing.

The basic idea behind SIP is that while the general direction of an equity investment is upwards, it is not possible to reliably predict the actual fluctuations that it may undergo as part of its general trend. Instead of trying to time one's investments, one should regularly invest a constant amount. As time goes by and the investment's NAV or market price fluctuates, this will automatically ensure that when the price was low, you ended up purchasing a larger number of shares or units. Eventually, when you want to redeem your investment, all the units are worth the same price. However, because your SIP meant that you bought a larger number of units whenever the price was low, your returns are higher than they would have been otherwise. Asset Management Companies are doing a good job in educating investors about the way SIP works, and this will surely minimize SIP stoppages.

The benefit of an SIP is realized best when the investor has been with the SIP for at least one full cycle (ie, from one bull market to another, and all months in-between).

The ideal thing for an investor to do is to clearly identify the purpose for which the SIP is being started, and until a few years before that event becomes imminent, keep continuing the SIP. If for example, an investor starts a SIP to fund his/her own retirement, and if the SIP is started when the investor in in the mid-30s, then he/she has at least a 25-year horizon. There is simply no point in stopping the SIP at the first instance of a market fall.

What advice would you give to the readers of BW Businessworld on their Mutual Fund investments?

Keep asset allocation at the core of all your investment decisions. While equity funds are indeed the best bet for long-term wealth creation, for near-term goals you may consider well managed fixed income funds too. Indian interest rates are among the highest in the world and with recent moderation in inflation, the real rate of interest is indeed attractive.

Do give time for your equity investments to perform. Equity markets by nature are volatile and this is something we can't wish away. We probably achieve precious little by tracking and worrying about the markets daily. Keep it simple, invest in good funds, stick to asset allocation and give your investments time to perform.

Could you please throw some light on the specific "Investor Education" initiatives being taken by DHFL Pramerica Mutual Fund?

As part of DHFL Pramerica Mutual Fund's investor education initiatives we have started an internet campaign using short videos explaining why investing regularly is a healthy and responsible habit. We are also distributing the message through Outdoor media and a booklet series being made available on our website. Further we are conducting investor education camps in various cities to reach a diverse audience of investors with the message.

Additionally the Mutual Fund Association (AMFI) is pooling resources from all member MFs and planning to come out with a series of initiatives in this regard.