HDFC MF Weekend Bytes

(A weekly article series from HDFC Mutual Fund)

Personal finance lessons learnt during the Pandemic

With the emergence of Covid-19 pandemic, the last 15 months or so have been one of the most uncertain periods for mankind in last many decades, with an unprecedented impact on lives and livelihoods. There would be hardly anyone who could have predicted a pandemic, or a complete lockdown. The Indian economy witnessed its first recession in the last 4 decades. BSE SENSEX dropped by more than 35% in a very short period and still ended with positive calendar year returns.

There are many important lessons that we learnt from the events of this period as far personal finance is concerned. Let us look at them in detail:

1. Liquidity is king

A lot has already been written about the importance of keeping an emergency fund, as it comes handy during crisis periods. However, availability of such a fund also ensures that an investor does not have to sell the investments at low prices. Emergency funds increase the ability to hold on to investments for longer periods. Any early withdrawal from a long term plan is akin to interrupting the process of compounding.

The investors, who had some cash in the portfolio did not panic during the stock market crash of March 2020. In fact, some of the more aggressive investors with adequate liquidity, bought more equities only to be rewarded later.

Learning: Park at least 6 months of your living expenses in Liquid or Overnight Funds.

2. Financial assets are key

Investments in liquid financial assets that could be transacted electronically were the saviours of many during the crisis period.

Imagine someone heavily invested in physical gold or real estate, and needed to liquidate the investments to fund some expenses on account of loss of job or hospitalization. During the days of lockdown, there was no way to liquidate these assets. On the other hand, the shares and debentures listed on stock exchanges or units of mutual funds could easily be liquidated.

Learning: Have a sizeable chunk of financial assets in your portfolio. Gold ETFs are a smart way to invest in Gold.

3. You cannot predict; have asset allocation in place

In February 2020, nobody could have imagined that half the world's population would go into a complete lockdown, spending the next few months inside their homes. Similarly in February 2021, nobody could predict the deadly second wave that swept the whole country over the next few months.

In the financial markets too, uncertainties were high among all major asset classes. Prediction once again proved to be a futile exercise. While there are various aspects to take care of like having a contingency fund, adequate insurance, low levels of loans, etc., the most important one pertains to asset allocation. When equities saw a drastic fall amid the onset of the pandemic, gold moved in the other direction and debt provided stability. A portfolio mix in all these asset classes could have saved the day during the crisis and also instilled discipline to hold on to equities as the stock market recovered subsequently.

Learning: Invest across asset classes or choose a fund that invests into equity, debt and gold.

4. Never lose sight of your financial goals, as the turnaround could be nearer than you can imagine

Your financial goals are paramount. Even when there is a financial setback, stated goals help you to recover and stay on course to achieve them. If at all, delay the goals or make some adjustments, but do not do away with your financial goals. For instance, a short-term financial goal for many individuals can be to become debt free. Even if there is a financial setback, say due to sudden hospitalization of a family member, there can be delay in achieving this but, it is important to stay focussed on the financial goal.

Every family's financial goal could be divided into responsibilities and dreams - the former cannot be done away with. For example, saving for the children's educational needs and building a corpus for retirement, are such goals. On the other hand, a plan to move to a larger house or upgrading to a better family vehicle can be categorised as the latter.

Learning: Alter the plan, if needed, but do not lose sight of the goals.

5. Have a plan to safeguard yourselves against your own emotions

We also saw fear and panic among investors during the pandemic. While this fear was understandable and even desirable to an extent since it ensured people took enough precautions, financial decisions taken under the spell of fear may prove hazardous, or erroneous. It is also equally important not to give into the other side of emotions like greed as the markets have recovered from their 2020 lows.

Many a time, the solutions to overcome these difficult problems can be surprisingly simple. A SIP or Systematic Investment Plan can help a great deal in handling emotions as money is invested in a disciplined way irrespective of market levels.

Learning: Start an SIP today. If you have already done it, start another one!

6. Take professional help to ensure you do not deviate from a carefully crafted investment plan

There are many who have a plan, but still fall short of following it or often deviate. There are too many temptations or distractions. This is where a good professional guide like a mutual fund distributor or an investment adviser can play a big role. These professionals ensure that you stick to the plan.

Learning: It is possible to scale Mount Everest without Sherpas, but experience shows, chances of success are more when the journey is taken with a Sherpa, as they not only guide you but also lend emotional support when the going gets tough. All great players have coaches to guide them through their journey.

Remember these lessons. While a pandemic like situation may or may not repeat in our lifetimes, the next crisis could be in a different form, making it imperative to remember these lessons.