THE POWER OF PATIENCE

MAINTAINING LONG-TERM PERSPECTIVE ALONG WITH RIGHT ASSET ALLOCATION AIDS WEALTH CREATION, IRRESPECTIVE OF THE MARKET PERFORMANCE

India's equity markets are at/near their all-time highs. This rise has been driven by improved earnings of Indian corporates, savings increasingly moving into equities (directly and via pension funds, mutual funds and insurance companies) and macro-economic stability. While these factors have benefitted investors, high market levels have also raised concerns. On trailing P/E, the Nifty is currently trading at 22.5, which is above its 10-year historical average of 18.9. Other parameters such as Market cap to GDP, Bond-Earnings Yield spread, are also signalling higher than average valuations in markets. Here are a few concerns that are likely to arise:



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● SHOULD I CONTINUE MY EXISTING SIPs/ START NEW SIPs?

SIPs are relatively less impacted by short-term market fluctuations as they accumulate units over time. Therefore, starting new SIPs is unlikely to be a significant concern.

● SHOULD I CONTINUE TO HOLD MY EQUITY INVESTMENTS OR SELL SOME OF THEM?

Despite above-average valuations, the earnings growth outlook remains positive due to strong economic growth and corporate health. Investors should maintain a long-term perspective, as earnings growth is a key determinant of long-term equity returns. However, if valuations reach extremely high levels, history shows that equities can have low or negative returns for extended periods. Maintaining the right asset allocation is crucial. Investors who believe they have higher than optimal exposure to equities, might consider trimming or reallocating some investments.

● WHERE SHOULD I INVEST LUMPSUM AMOUNTS?

Again, maintaining asset allocation is essential. Based on personal financial situations, a balanced mix of equity, debt, and other asset classes should be targeted. Incrementally, one could choose a hybrid solution that best suits their needs — mutual funds offer a wide variety of hybrid investment solutions, ranging from Hybrid Equity to Balanced/ Dynamic Funds to Hybrid Debt Funds. Funds such as Multi Asset and Asset Allocator funds invest in multiple asset classes.

● LONG-TERM THINKING VS TRADING APPROACH

As equity markets trail long-term economic growth in the long term, it is ideal to move away from a short-term trading mindset to a long-term investing approach. It is now established that India is among the fastest growing nations of the world and hence, it makes sense to hold Indian equities for the long term.

● LOOKING AHEAD

While higher market valuations should concern investors, it is important to maintain a balanced perspective. High valuations pose risks but also reflect strong underlying fundamentals and economic growth. Being in the fastest growing economy, completely avoiding equities (citing valuation concerns) may also be mistake. Wealth creation is a function of sound investment, time, and patience.

Investors should focus on maintaining a disciplined approach to asset allocation, continuing SIPs and making informed decisions about their equity holdings.

By staying diversified and considering hybrid investment options, investors can navigate market volatility and work towards their cherished long-term financial goals.

The key is to stay informed, remain patient, and avoid making impulsive decisions based on short-term market movements.

The views expressed by Mr. Rajiv Maniar, are as of 3rd October, 2024. The views are based on internal data, publicly available information and other sources believed to be reliable. The statements contained herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. The Fund/ HDFC AMC is not indicating or guaranteeing returns on any investments. Readers should seek professional advice before taking any investment decisions.

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