ME vs MARKET
AN INVESTOR EDUCATION INITIATIVE

Are you happy with the performance of your equity portfolio?

The general assumption of an investor of the equity stock market is that it is an easy platform to make quick money; but what they are not aware of is that it requires sufficient research & knowledge, abundance of time & patience, thorough understanding of the market, etc. to create wealth. The lack of these often results in the investors having a negative experience of investing not just directly in the equity stock market but as whole may discourage them to invest in any form in the future.

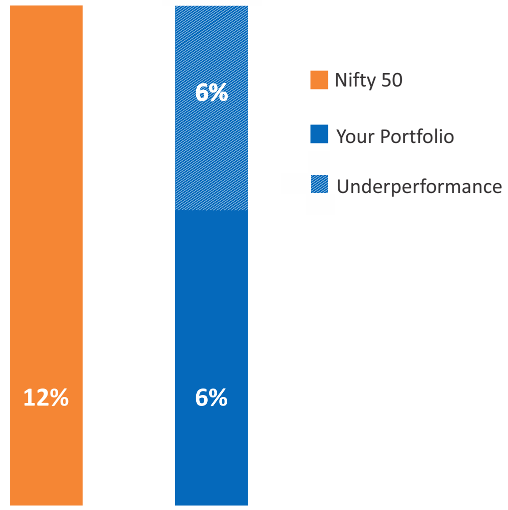
However, equity investing is not an unachievable task for those who are well versed with the nuances of investing in the equity stock market. Listed below are 5 ideal parameters that could help you evaluate the efficacy of your equity portfolio; if you are evaluating with the same parameters and yet happy with the performance of your equity portfolio, then you are a smart investor. If not, then fret not! We recommend you to invest through Mutual Funds.

Sirf ek sawaal, kya aapke returns hain index se zyada khush-haal?

Can the ideal equity portfolio outperform the benchmark?

The basic expectation of an investor while investing in the equity stock market is that his/her equity portfolio should perform better than other investment avenues. However, you should compare the returns with the indices before comparing with any other asset class. And to select an appropriate benchmark or index for your portfolio; you need to assess the market capitalization segment of the stocks in your equity portfolio. For instance, if you hold large cap stocks in your equity portfolio, the ideal benchmark for gauging your portfolio's performance would be Nifty 50 Index or BSE Sensex, if your equity portfolio is more tilted towards a mix of mid and small cap stocks, then ideally it should be benchmarked against NSE500 or BSE500 Indices.

Assume that your equity stock portfolio; which is dominated by large cap stocks, has delivered 6% CAGR over last five years, however, Nifty 50 has delivered 12%* in the same period. So 6% seemed to be an attractive return, but when you compared it with the benchmark, it underperformed by 6%.



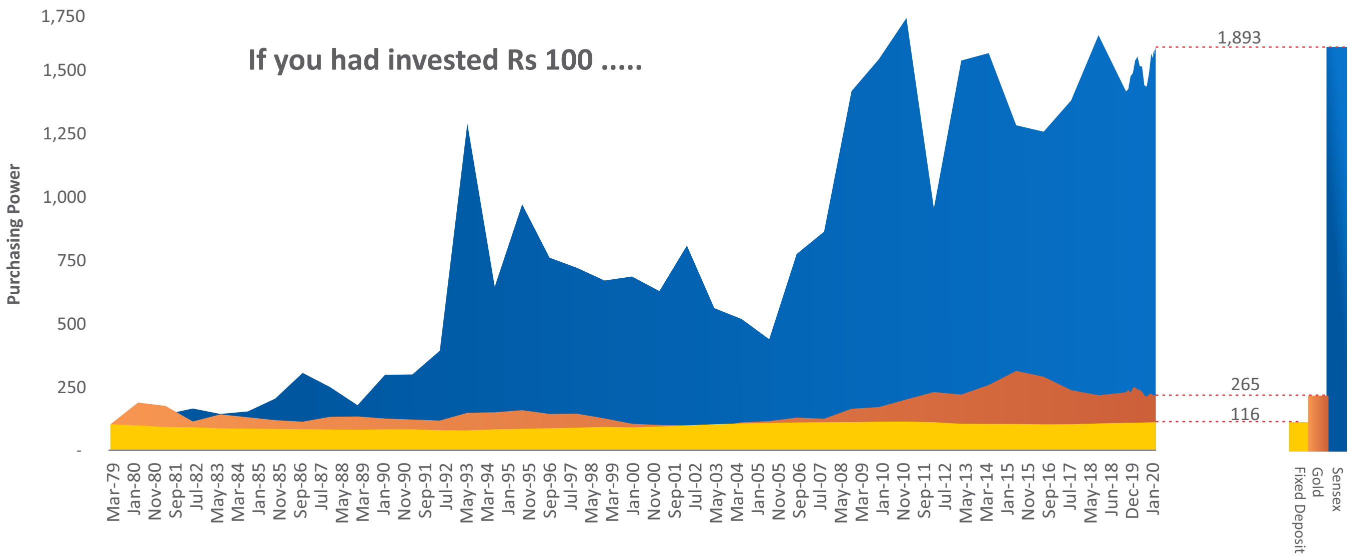
Source: MOAMC internal analysis
The above graph is only for illustration purpose and should not be construed as recommendation.
*For illustration purpose only

YOU COULD beat the benchmark through investing directly in equity, only when you have time to participate actively in the stock market and research extensively to pick the right stocks from the index and give right weightage to it **or simply leave it to an expert by investing in Mutual Funds.**

Sirf ek sawaal, kya aapke returns ne diya inflation ko muh-tod jawaab?

Can the ideal equity portfolio beat inflation substantially?

With every passing year, inflation tends to erode the purchasing power of your money. However, by staying invested in equity for a longer period of time; you could beat inflation. Let's assume that your equity stock portfolio has delivered 10%, of which, inflation will consume 7%; leaving you with only 3% which would be your inflation-adjusted return. At the onset, it seemed lucrative but when you adjusted it against the inflation, it was nominal. This is how inflation impinges on your investments in the long run. Equity as an asset class has outdone the inflation in the past, for instance, Sensex has delivered 16% CAGR in the last 39 years, beating inflation by 10%.



The above chart depicts that if you had invested Rs. 100 in the year 1979 into 3 different avenues i.e. Fixed Deposit, Gold and Sensex, today, the Value of Rs. 100 after adjusting for inflation would have remained almost at the same level in FD, would have merely been just above double in Gold, but in Sensex, it would have been almost 17X.

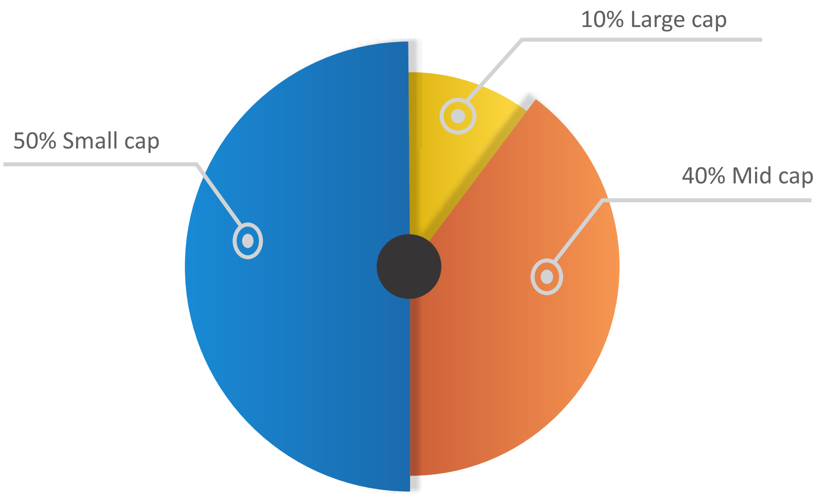
Source: Internal Analysis I Data as on January 31, 2020

YOU COULD also beat inflation through investing directly in equity, provided you have the time and expertise to study the stock/company before you buy and monitor them periodically **or simply leave it to an expert by investing in Mutual Funds.**

Sirf ek sawaal, kya diversification ka rakha hai aapne khayaal?

Can the ideal portfolio be diversified, yet focused?

A cricket team consists of 11 players, which has a perfect mix of batsmen, bowlers, wicket-keeper, fielders and all-rounders. Every player has their own specialization to not just perform well, but to win the match as well. Similarly, in equity investing you could diversify your portfolio across market caps and sectors depending upon your risk appetite. For instance, you could balance your portfolio by investing equally across Large, Mid and small cap stocks whereas, if you're an aggressive investor as shown in the pie chart, you would give more exposure to mid & small cap stocks in your equity portfolio, due to its high growth potential but it comes with high risk. On the other side, large cap stocks are generally known to have a strong hold on the investments during market volatility and steady dividend pay outs frequently.



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YOU COULD arrive at an appropriate diversification as per your investment style only when you have the time and expertise to assess your risk appetite, current financial status and goals or simply leave it to an expert by investing in Mutual Funds.

Sirf ek sawaal, kya tips ne kiya aapke investments ko barbaad?

Can the ideal portfolio be built on the intrinsic value of stocks?

A very common practice or phenomena of direct equity investors is to invest in stocks based on the 'TIPS' from friends and family and also from the brokerage houses without understanding the intrinsic value of the stock. As believed by all the investment pundits globally, there is nothing termed as "TIP" in the stock market. You should opt to invest only when you understand the business fundamentals of the company and foresee the growth in earnings over the next few quarters. Essentially, you should research enough before investing in the any stock and not just by looking at the face value of the stock as earnings drives the share price in the long run.

YOU COULD succeed in exploring the underlying fundamental of a business, only if you have enough time and expertise to decode the balance sheet, management, business strategy, etc. or simply leave it to an expert by investing in Mutual Funds.

Sirf ek sawaal, kya apne stocks par hai aapka dhyaan?

Can the ideal portfolio be monitored regularly?

Would you buy a sweater to protect you when it rains or an umbrella for the biting lashes of wind in winter? Similarly in equity investing, you should know when, what and how much to buy or hold or sell. For instance, you've spent enough time to research about a company before investing in them. And its products were in demand as the stock price rallied with the earnings of the company. Also, the products were expected to perform at a similar rate or better in the future. But unfortunately; an event like a fault in the manufacturing unit could adversely affect the share price. Therefore, it's essential to not just pick the right stocks, but also keep a 24X7 tab on your stocks to exit at the right time.

YOU COULD regularly monitor the stocks you own in your equity portfolio only when you have time and knowledge to know when to take the right call or simply leave it to an expert by investing in Mutual Funds.

Are you still apprehensive about the benefits offered by Mutual Funds?

Let's take a look at a real life example; during illness, would you prefer to visit a doctor or opt for self-medication? Wouldn't you trust a specialist with years of experience, credibility and immense knowledge who would diagnose your illness better and help you recover faster? If you trust an expert for your health, then isn't it logical to entrust your wealth with someone who has the expertise, integrity and comes with years of proven track record? Yes, we are talking about Mutual Funds.

Mutual Fund is an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by investment managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund portfolio is structured and maintained to achieve the investment objectives stated in the scheme information document.

Just to get started with... Let's help you with a few advantages of Mutual Funds over direct equity investing

Investing in equity via Mutual Funds	Investing in direct equity market
Experience & Expertise of the professionals • The fund manager identifies the stocks that are needed for a well-rounded portfolio • He is backed by a team of research analysts who identify the performing & under-performing stocks through meticulous analysis • Layers of rich experience and expertise help them make decisions that are aligned with the objective of the particular Mutual Fund scheme	**Do it yourself** • You have to select the right stocks that are required in your investment portfolio • You need to constantly analyse the market movement, research about stocks and monitor your investment portfolio • You need to ensure that you are able to make right decisions to see to it whether or not they match your financial objectives
Axe your tax better • By investing in an Equity Linked Saving Scheme (ELSS), the investor is entitled to a tax exemption of Rs. 1, 50,000 /- U/S 80C of the Indian Income Tax Act, 1961 from the taxable income to effectively reduce tax liability. ELSS comes with a lock-in period of 3 years	**No tax benefit**
Invest as per your risk appetite • Mutual Funds offer the investor the advantage of investing in schemes that are according to their risk profile and financial objectives; could be referred by reading the 'Product Label' • Those who wish to invest aggressively can invest their money in the schemes labelled as "HIGH" in the product label whereas, investors who have a slightly lower can invest in products labelled as "MODERATELY HIGH"	**Invest as per your understanding** • As a direct equity investor, you might not have clarity on the business or may get carried away with a particular stock • Direct equity investors need to have thorough understanding of the underlying business fundamentals and gauge whether or not the stocks they intend to purchase match their financial goals
Plethora of schemes and fund houses • In Mutual Funds, the investor is exposed to a variety of mutual fund schemes and fund houses. The investor can select a scheme based upon the track record, the scheme objective, and his /her financial goals. He could also take the help of a financial advisor • Those who want to save tax can opt for ELSS while those who wish to stay invested for a longer period can invest in a variety of equity funds. • The helps in building a diversified portfolio at a lower cost	**Not much to choose out of** • Direct equity investors buy and sell shares according to market valuations and available news. Such investments may get impacted by global events, catastrophes; calamities etc. and have an adverse price impact before you could exit them • If you invest in the equity market directly, you need to ensure you thoroughly understand the growth potential of the companies and future prospects. This required experience, expertise, patience and time