# Arresting Declining Retail Investor Base

**Shachindra Nath**
*Group Chief Executive Officer*
*Religare Enterprises Ltd.*

Indian capital markets have attracted a lot attention across the globe. Besides poising robust growth over the last decade backed by returns, Indian Capital markets have attracted huge capital inflow from domestic as well as foreign investors. However, domestic savings into the Indian capital markets remains under penetrated and more recently there seems to be a worrying trend appearing which indicates towards a declining retail investor base. As per SEBI data for 2013, there is an indicated decline of 3.3% in the retail investor base as compared to 2012. Incidentally, India is home to about 1.5 Lac dollar millionaires which are expected to grow to around 2.42 Lac in 2017. Thus, while studies suggest that there is burgeoning wealth expected, a situational trend of declining retail investors needs immediate attention.

By itself India is a formidable savings nation, with a savings rate as high as 33.7%, there is a favorable environment to boost investment demand, so what could be possible reasons for retails investors shying away from capital markets ?

Investor Education: There is lack of awareness about the diverse range of financial products available for investment and systematic approach of investing in these instruments backed by adequate research. A large segment of the population invests primarily in traditional assets like gold and land. It is investment into these asset classes that needs to be channelized into appropriate investment avenues. Even urban investors today possess limited knowledge and information on products, their benefits and risk attached. This is a deterrent to investment and the recent volatility seen in 2013 has seen retail investors becoming frustrated and tempted to go back to traditional assets.

Understanding Risk: Even urban investors have limited knowledge on the underlying risks to their current investments. This inability to decipher risk categories leads to concentrated portfolio's which in turn results in high beta portfolios and the resultant disappointment with interim volatility. Learning's of beating volatility by remaining invested are though much repeated but seldom followed. It is here that the portfolio managers and wealth advisors play a vital role by ensuring that each client managed by them understands completely risks associated with any investment. Each asset class has provided good returns provided the investor held them for a long period of time and took advantage to the rupee cost averaging methodology of investing, this holds true even today. However, speculative tendencies and social investing has left retail investors booking losses and forming opinions of distaste.

Setting Correct Expectations: In the last decade three bull runs gave formidable returns to a few in the capital markets; however the long term CAGR of the indices (which remain in line with a developing economy expectation) were forgotten. Secondly, real estate saw organized investment & significant FDI inflow and boom in development, this led to sky rocketing prices led by demand. Lastly, in the last two year precious metals have again seen an unprecedented rise and a subsequent correction as well. However, upswing in any asset class do not represent the long term return presented by the asset class itself. It is imperative that retail investor be made aware of the long term investment approach and its associated benefits. We need to collectively dissuade wrongful speculative expectation by providing statistical data with transparency.

The recent Investment Advisors Regulation as issued by SEBI which come into effect in October 2013 and the subsequent RBI recommendation to segregate wealth management division from the core banking operations of bank; are the first concrete policy milestones that will be immensely helpful in arresting this interim decline of retail investors. Besides providing transparency in the process of rendering advice and ensuring consistent of quality of advice, it will also ensure that long term investors reap the true benefits that the Indian Capital Markets have offer.