From Savings to Investing: The Key Challenges

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Unlike most other mammals, a human child comes out of the womb-like molten glass from a furnace. The child gets moulded by its upbringing and society by large.

The previous generation in India grew in scarcity. Thus, saving was important. From childhood, we are taught to save. Piggybank was our default first toy and our stories also revolved around saving.

We learned saving but missed an important aspect of investing.

Saving is not the same as investing. Many people in India use them interchangeably. But these two terms are poles apart.

Saving means putting your money aside (generally as a bank account) to reach your goal. Indians love fixed deposits. We have approx. 86 lakh crores in Fixed Deposit. And approx. 67 lakh crores lying in saving account and current account earning very low returns.

But then there is an invisible enemy (inflation). You may like it or dislike it, but the prices of goods and services always go up. Tuition fees, cost of milk, fruits, vegetables, petrol, hospital bills all keep rising.

The biggest challenge with saving is that it cannot beat inflation. So, you don't create wealth. At max, you can preserve your capital against inflation.

Investing on the other hand is buying an asset that will generate profit and has the potential to grow over the longer term. Investing in stocks of companies (equities), bonds, real estate, gold is some form of investment.

It is ok if you are saving money in a bank deposit for a short-term goal like paying your child's annual tuition fees or planning to buy a car in few years or going for a vacation.

But then if you are planning for your long-term (10 to 15 years +) goals like your children's higher education, their marriage, and most important of all goals the long retirement, you need to invest to create wealth (beat inflation).

The biggest reason why people get scared of investing is because it is risky. Unfortunately, the risk is not understood.

Yes, equity, real estate, gold are other risky investments (their prices go up and down) and there are also periods when these investments don't give returns. But over a long period let's say 15 years plus they have a high potential to generate wealth (give higher returns than inflation).

So, if you have goals that are 15, 20 years ahead then investments done properly are safe and on the other hand, savings become risky because the amount accumulated will be less than desired to meet the goals. (Challenge to achieve long-term goals).

It's not that Indians don't invest. They do invest but most of these investments are in physical assets. (Gold and real estate).

There is a huge opportunity to invest and grow their money in financial assets.

Our system needs an overhaul

Our system currently focuses on saving but it never celebrates investing. Our schoolbooks need chapters of great businessmen like Narayan Murthy, Tatas or others who created lakhs of jobs, created wealth, and showcased Indians on the global platforms.

Legendary Investor Warren Buffet and his timeless principles of investing should be part of the curriculum. He started investing at the early age of 11 and today he is 90+ and still investing. His Portfolio currently is more than USD 90 billion.

Warren Buffet has pledged more than 99% of his wealth towards philanthropy during his lifetime or at death. We all want to do well for society. Equity can create wealth and can also help us do good for society.

Even higher education skips the concept of personal finance. Highly educated Indians like doctors, engineers, architects also have no idea about investing.

Mutual funds should be taught in primary school. It's such a simple concept. (Sad part is currently equity mutual funds are less than 5% of India's GDP.)

We teach Newton's law of motion but failed to teach the most important law of wealth creation. **The power of compounding.**

Amount invested per month Rs. 10000			
Interest p.a	10 yrs	15 yrs	20 yrs
@ 6%	Rs.16.4 lacs	29.1 lacs	46.2 lacs
@ 12%	Rs.23.0 lacs	49.9 lacs	98.9 lacs
@ 15%	Rs.27.5 lacs	66.9 lacs	149.7 lacs

Such a simple and powerful formula. A combination of time + good returns can create magic over the long term.

Interesting fact - Warren Buffett corpus is ~90 billion USD. More than 99% of his money was earned after the age of 52. It's not magic. Money grows with time.

Stock markets are projected like a gambling den. This perception needs a change.

Every asset class goes through cycles. There are periods when every asset class goes through a downturn where returns are low to negative. Faith in an asset class is important to hold the assets during such times.

Investing is a long-term journey. The benefit of the power of compounding is for real but available to only those who are ready to exercise patience.

Indians have shown faith in real estate and gold and hold these assets for generations. Similar faith is needed while holding equity.

Returns attract us towards an asset class, but faith is an essential ingredient to hold an asset class for long periods especially when they go through periods of a rough patch. This faith can only be built with the right education of both risk and rewards of investing.

Risk and reward are two sides of the same coin. Returns don't come without risk.

Why I am hopeful about India's future.

Today people venturing into business are qualified, established, and have a burning desire to change the world. Today failure is less of a stigma and wealth creation is being celebrated.

Technology and Jio moment in India can be a catalyst to build a strong infrastructure to communicate the benefits of investing. India can leap jump in educating itself on financial assets.

The financial infrastructure is becoming robust. Immense improvement has happened in the last few decades on all fronts. Regulation, rating agencies, exchanges, broking business, bond market, advisory, distribution, fintech, fees, cost structures, and transparency, ease of getting the right information at low cost.

Today many investment options available to investors and it's only improving.

Current Investor Behaviour

The key challenge we see in terms of the investor's behaviour is his aversion to thinking long term. Most want to make quick gains and get put-off when professionals talk about investment for 15, 20 yrs.

This task becomes even more daunting in some phases of the economy. For e.g.in raging equity markets like we are seeing today when doubling of money seems quite easy and quick it would be extremely difficult to convince an individual to set aside investment with a 20-year view.

All your talks about the risk they are undertaking to earn quick gain will fall on deaf ears. It is observed that not only an amateur but even veteran investors give in to this temptation and deviate from their chosen long-term path.

Hence individuals need to understand that money-making is a long-term process, and the lure of quick gains is illusionary. This would allow them to behave more rationally and get desired long-term outcomes from their investment.

Current Market environment

It is quite pertinent to mention our observation from the equity market of late. It is quite clear from the equity market trading analysis that non-institutional, or retail volumes on the exchanges have touched almost 65-70% of the total average daily turnover, which used to be around 40-50% pre-covid. Combine this with the quality parameters of individual companies such as cash flow, ROCE, etc. it becomes clear the poor-quality drift that is taking place in the markets. Can't predict when but I am sure this behaviour would eventually cause a lot of heartburns.

Call of action

1. Stick to companies that have a sound business.
2. Don't chase returns and stick to asset allocation. (Good combination of equity, fixed income, some gold, some cash in your portfolio)
3. Asset mix should be based on your goals, risk appetite, and time horizon.
4. Don't let emotions dictate your investment decisions.