Outlook MONEY

Major Investing Lessons From 2020

Our investment decisions should be based purely on what we can control and sticking to asset allocation

Ankur Maheshwari - 23 December 2020

As 2020 comes to an end with memories of gloomy pandemic and dramatic events, it is needless to say that we are left with woes and despair. However, for an investor, it was a year of great learning. Let us dive into some of the market lessons that we have come across this year.

Do not predict market movement – Isn't that a favourite past time for many of us? Circa December 2019, how many were able to do that for 2020? Probably none. How many were able to tell you during the free-fall witnessed in March, that the index will see a new high in the same year itself – again none! What we forget is that market movement is a function of so many variables, that it is impossible for even a supercomputer, forget the human mind to do that! So, it can be an engaging coffee-table discussion but nothing beyond that!

Do not mix emotions and investment decisions – As humans, it is natural for emotions to prevail over logic while making any decision, many times. It may be helpful on several occasions but may not be beneficial while allocating your investible surplus. Greed at times of irrational exuberance and excessive fear at times of pessimistic sentiment often ensures we take the incorrect decision or rather the reverse decision. E.g., in March 2020 when markets corrected sharply, some so many investors exited equities just because of the prevailing negative sentiment, ignoring the fact that valuations were becoming more attractive, thereby actually warranting increasing allocation.

Stick to your asset allocation – If there is one principle of investing which is least appreciated, it is this! In the example discussed above, if one would have maintained the pre-decided asset allocation, the weight to equities would have automatically been enhanced – which, as we would realise now, would have been a very appropriate portfolio decision. Similarly, not exercising profit-booking is again an error. It leaves us with a sour taste, when we do not see notional-profit not becoming real-profit and those getting eroded when market direction reverses.

Do not try timing the market – The joy of entering at the bottom and exiting at peak of the market has no parallels for an investor. However, if there is one word that can describe that – it's a mirage. Let us again ask – how many investors put money at the bottom of the market in March? Or even in the vicinity of a week? *Typically, courage evaporates when the opportunity arises. So, it is a completely futile exercise trying to do that.*

Focus on variables which you can control – A very hot topic of discussion these days is - will FII inflows continue? What will RBI do in the next monetary policy? Will the next budget be good for markets? However hard we may try to answer all these questions, unfortunately, it will be nothing beyond crystal ball gazing. And still, we spend a lot of time and effort doing that – sigh! Our investment decisions should be based purely on what we can control viz. sticking to asset allocation and choosing the right products per our risk appetite.

Do not become a fund manager yourself – There are many people who at the slightest illness rush to take professional advice from a doctor. However, when it comes to the world of investments, they seem to believe that they know-it-all! E.g., given the recent rally, we think we know which stock will be the next multibagger or which sector will lead the next leg of the rally. Stephen Hawking said – "*The greatest enemy of knowledge is not ignorance; it is the illusion of knowledge*". Do not forget it is your hard-earned money. Seek professional advice and make more informed and well-researched decisions – an important ingredient for a good recipe.

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