Investment in Equities & Power of compounding

Not taking risk is the biggest risk in life…

General perception about investment in equity is that it is RISKY…well so is driving a car or using electrical appliances. However, if you do it right, follow basic norms and precautions, the risk is mitigated to a very large extent. Today, all of us have driven an automobile or travelled in one and of course use various electronic gadgets.

Investment in Equity is nothing but taking a part in the ownership of business either own or someone else's. Needless to say all the businesses have certain amount of risk associated with it and yet well managed businesses flourish over a period of time and thereby rewarding to its stakeholders. In India, until a couple of decades back, buying gold, fixed deposits or buying a piece of real estate or simply holding funds in one's Savings Account were considered to be an Investment. Investment into equities was least preferred option due to lack of knowledge and advice.

Having said that, equity markets have historically produced higher returns than gold, real-estate, bank deposits or other fixed income assets over the longer term (source: Bloomberg)

Historical data states that the risk of capital loss does exist especially in the shorter term but with longer periods of investments, this risk is negated.

Fixed Deposits are risky in the long run while Equities are risky in the short term…

Investment in Equities provide various distinct advantages over the other asset classes:

- Easy to invest and ease to liquidate
- Flexibility to investment in smaller amounts
- Beats inflation over a long period of time
- Power of compounding & hence higher returns
- Dividend income
- More tax efficient & tax benefits
- Best proxy to benefit from overall economic growth
- Transparency
- Asset Allocation / Diversification based on risk appetite and return expectations
- Well governed regulatory framework
- Achieving long term financial goals

Now let’s look at different types of equity investments:

Active Investments :

- Direct buying of Individual Company shares

Passive Investments (through Funds)

- Mutual Funds (Lump sum as well as Systematic Investment Plans (SIPs)
- Model Portfolios, Small Cases
- Portfolio Management Services (PMS)
- Alternate Investment Funds (AIF)
- Private Equity Funds (PE)

The best thing your money can buy for you is……. more money.

Compounding is a snowball effect that occurs when the money that you have earned by investing starts generating returns for you not just by way of capital appreciation but also by way of dividends.

How to get started:

Investment in equities needs certain amount of basic knowledge, understanding and professional advice. It's prudent to engage a professional advisor or a Certified Financial Planner (CFP) who will adopt a holistic approach towards your overall financial well-being. He will help you do your profiling, know your present financial health, set financial goals, design a financial plan and also help you achieve those plans. Follow the below mentioned steps in order to achieving financial freedom:

- Get Started
- Engage a professional
- Information Gathering & Profiling
- Designing a financial plan
- Invest Regularly
- Invest enough
- Diversification & Asset Allocation
- Review the performance

By following these principles and staying disciplined, you can potentially earn more consistent returns over time and achieve your long-term financial goals.