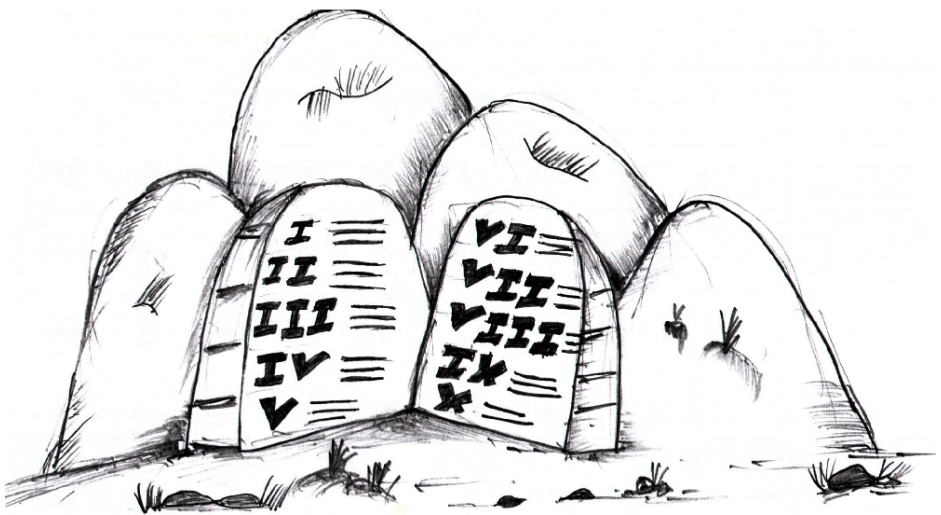




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# TEN TIMELESS COMMANDMENTS OF EQUITY INVESTING.



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# Law of the Farm

The only thing that endures over time is the 'Law of the Farm.' You must prepare the ground, plant the seed, cultivate, and water if you expect to reap the harvest.

- **Stephen Covey**

The path from sowing to harvesting is a long one. A seed has to pass through many stages before it blossoms into a plant. A farmer who begins the process knows this natural order of things. He is aware enough to understand that attempting to speed up the process could only harm his crop, and thereby his financial security. He also knows that the process is susceptible to the vagaries of weather or the ravages of insects. **However, the lack of a 'guarantee' does not prevent him from sowing the seed.**

When we invest in equities, we are actually **owning a small share** of that company. A successful business takes time to be built and even after that could always be undermined due to internal and external setbacks. However, citing the lack of guaranteed success, as a reason for not investing, will only deprive us of the myriad benefits of equity investing.

Also, **attempting to get rich speedily by purchasing shares of shady companies whose promoters rig prices / relying on stock-market 'tips', etc. is akin to speeding up the process of farming. It could harm you financially.**

Hence, it is necessary to think in terms of years, not months, while choosing to invest in equities.

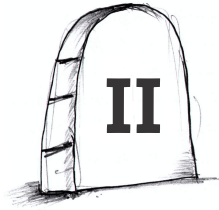
**This is a good time to recount three memorable quotes by Warren Buffett :**



"No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant."

"The stockmarket is a device for transferring money from the impatient to the patient."

"If you aren't thinking about owning a stock for ten years, don't even think about owning it for ten minutes."



# Volatility cannot be avoided



Source: [blog.bitmex.com](http://blog.bitmex.com)

All of us crave stability and fear volatility. Consequently, many avoid investing in equities, saying they are too volatile. **However, is life always stable? No. It is not.** All of us have experienced the highs and lows that life has to offer. Yet, hardly anyone has stopped living due to that.

Very few have always stayed indoors merely because ‘anything may happen’ once they move out. Most of us want new experiences, even though we are not entirely certain that those experiences will always be pleasant. **However, most of us are also sensible enough to take adequate safeguards.**

Similarly, volatility cannot be avoided while investing in equities. However, it can certainly be managed by adhering to time-tested investment principles and following a robust investment process.

While you may suffer from quotational losses (fall in share prices) during bearish times, stocks of good companies will bounce back when times improve. Hence, purchasing stocks of good companies at reasonable valuations will protect you from the threat of permanent loss of capital.

**Benjamin Graham**, the doyen of value investing reminds us...

“Expect Volatility and Profit from It.”



**Benjamin Graham**  
Value Investor



# The 'Best' Time to invest?

Next

Tomorrow

Later

Now

## Stockmarkets are ruled by the twin emotions of greed and fear.

Greed causes us to purchase stocks even after a long bull run hoping they will go even higher. There are also some 'smart investors' who know they are being foolish by buying high but aspire to sell these stocks at an even higher price to a greater fool.

Similarly, most fear to invest after a long bear run, fearing that prices will plummet even further. However, this is the time when low valuations induce astute investors to begin purchasing, ignoring the warnings of the gloomy crowd around them. Often, it is these same investors who sell at a much higher valuation a few years down the line.

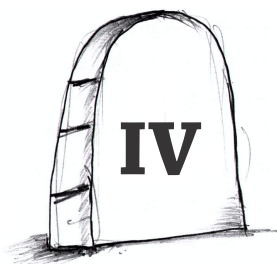
You too can join their ranks by gauging when you feel most fearful about investing in equities, and then going ahead and doing exactly that.

“Fear, greed and hope have destroyed more portfolio value than any recession or depression we have ever been through.”



**James O'Shaughnessy,**  
American investor.





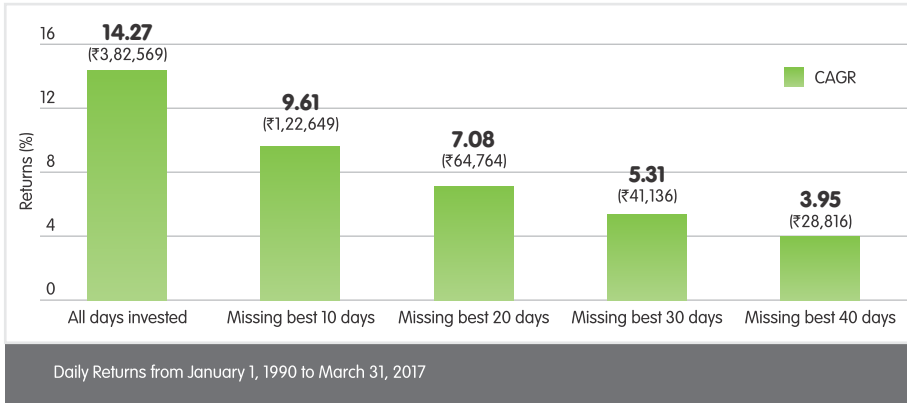
# Guessing tops and bottoms... A waste of time



All of us want to buy at the bottom and sell at the top. But is that aspiration realistic, when none of us can really predict the future?

Studies have shown that those who avoid needless activity and stay invested across market cycles, not only enjoy more peace of mind, but also end up wealthier.

Source: Value Research



It is better to devote time to researching companies rather than trying to get rich by extrapolating market movements.

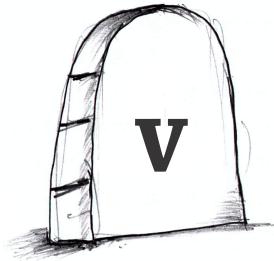
At the most, market movements could help us approximate when to do the opposite of what others are doing (say, buy when others are selling), rather than blindly following the herd. But even this should be undertaken with caution.



Whenever you get the urge to time the market, recollect this quote, attributed to **John Maynard Keynes** : “The Market Can Remain Irrational Longer Than You Can Remain Solvent”.



“If at all you must time the market, then be greedy when others are fearful and fearful when others are greedy” - **Warren Buffett**.



# Mutual Funds...

## An option to consider



Source: [finatoz.com](http://finatoz.com)

As in other walks of life, successful investing is a function of the following : Ability, Willingness, Opportunity and Desire.

Hence, while it is good to have the desire to invest, the willingness to devote time to it, and the patience to wait for a good opportunity to present itself, lack of ability to find good companies to invest in, can often be the biggest stumbling block.

This could be due to us not being comfortable with numbers, not having an accounting background, being unable to read between the lines of management's rosy comments, etc. It could also be due to us not being able to keep a check on our emotions.

If so, investing through equity mutual fund schemes, is the next best option. These offer you diversification, professional management and tax-efficiency at a reasonable cost.

Hence, do not refrain from investing merely because you do not have the ability to choose good companies.

Of course, all schemes are not created the same. You will have to still have to undertake some research into finding a scheme suitable for you. Also, it is prudent to consult your investment advisor before proceeding.



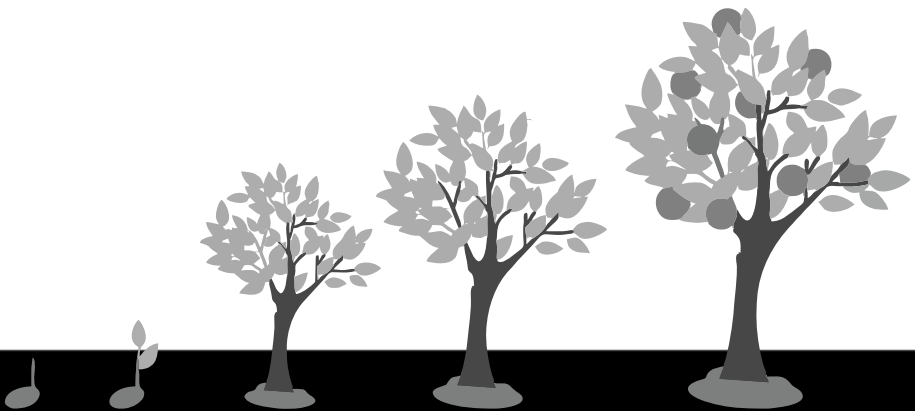
"Mutual funds were created to make investing easy, so consumers wouldn't have to be burdened with picking individual stocks"- **Scott Cook**



"Mutual funds have historically offered relative safety and diversification. And they spare you the responsibility of picking individual stocks"- **Ron Chernow**



# **SIPs : The 'auto-pilot' of investing**



Investing through mutual funds is only the first step. However, given their ease of entry and exit, you could still be tempted to try and time your transactions or indulge in trading.

To avoid this, it is best to put your investments on auto-pilot through the Systematic Investment Plan (SIP) route. This means you invest a fixed amount in a mutual fund scheme on pre-determined dates (say, 10<sup>th</sup> of every month).

In doing so, you eliminate the guesswork involved in market-timing. It also removes greed and fear from the equation.

However, remember that while SIPs help you become a disciplined investor, they are not a guarantee against losses.

“ Systematic Investment Plans...  
The equivalent of a recurring deposit in an  
equity mutual fund scheme.”

- Anonymous



# Stock valuations VS Stock values



Image source: [hometowndemolitioncontractors.com](http://hometowndemolitioncontractors.com)

In most countries, stockmarkets have steadily risen every decade. This also means that every high made by the index is crossed sooner or later. Investors who are fixated on these values, may end up selling their holdings fearing the market has risen too much / too fast. However, in doing so, they often miss out on the inevitable subsequent increase over the next few years.

Remember : **Stockmarkets are a function of two variables - Earnings and valuations.** Hence, as long as company earnings and the attendant valuations support stock prices, stay invested. Divest only if you feel that this link has been severed, and prices are rising irrespective of fundamentals.

In case you find it difficult to gauge this...then don't bother. Just remain invested as long as you do not require the money for the next few years.





**Want excitement?  
Look elsewhere...**



*Source: Investmentnews.com*

Some choose to invest in equities because they love the excitement of watching stock prices fluctuate. Others avoid investing in equities precisely because stock prices fluctuate. **Both are missing the point...**

Excitement or lack of it, should not be a reason to choose or ignore an investment. Consider the basic features of an investment product, check whether these are congruent with your goals...and then go ahead.

Over the past few decades, equities have proven to be a good choice for those who want to beat inflation. Also, while they fluctuate a lot over short periods, this reduces as time passes. **Hence, choose them only for investment horizons of five years or more.**

In other words, **equities are usually more 'exciting' but less rewarding in the short term, and more rewarding, though less 'exciting' in the long run.**

“ Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas.”



**Paul Samuelson**

“ Investors should remember that excitement and expenses are their enemies.”



**Warren Buffett**



# Envy.. One of the enemies of investing.

Don't envy the  
harvest of the rich.  
Envy their planting.

- Bo Sanchez

Many years ago, there was a detergent advertisement that went : "उसकी कमीज मेरी कमीज से सफेद कैसे?" (How come his shirt is whiter than mine?)

Do not be influenced by that ad. when you invest.

A particular stock or mutual fund (or even equities as a whole) should not be chosen merely because your friend / colleague / neighbour has become rich by owning it and you are envious of that fact.

Their circumstances, goals or investment horizon may be far different from yours.

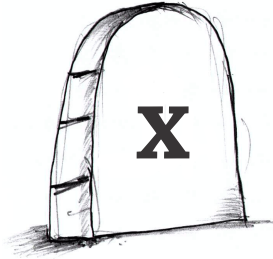
Also, what was a good investment a while ago, may not be the same today.

Hence, choose an investment based on your situation only, not because someone else has chosen it.

“The idea of caring that someone is making money faster than you are, is one of the deadly sins. Envy is a really stupid sin because it’s the only one you could never possibly have any fun at. There’s a lot of pain and no fun.”



**Charlie Munger**



# Emergency funding first... Investments later



*Source: DollarsAndSense.sg*

Equity investing involves giving up something today in order to be compensated adequately sometime in the future. As mentioned earlier...think in terms of years, not months.

However, the road to wealth creation can reach a *cul-de-sac* (dead-end) in case we have to redeem our investments abruptly, in order to meet an emergency.

Hence, invest in equities only after setting aside a reasonably adequate sum of money for emergencies. This could range from three to six months of expenses, and could be saved in the form of bank fixed deposits, in liquid mutual funds, etc.

**Remember...equities need time to prove their prowess.** They will fluctuate and may suffer sharp drops periodically. You must be aware of this before you invest.

It is not the fault of stocks / equities if you go overboard and then have to suffer losses if you are forced to sell when prices are low.

In this context the real-life account of Warren Buffett's grandfather, Ernest Buffett is illuminating :

Ernest Buffett, the owner of a grocery store in Omaha. left a letter to his daughter, Alice, in 1939, along with \$1,000 that Ernest had saved up over 10 years for her. It read, " You might feel that this should be invested and bring you an income...but forget it - The mental satisfaction of having \$1,000 laid away where you can put your hands on it, is worth more than what interest it might bring."

Mutual fund investments are subject to market risks,  
read all scheme related documents carefully.



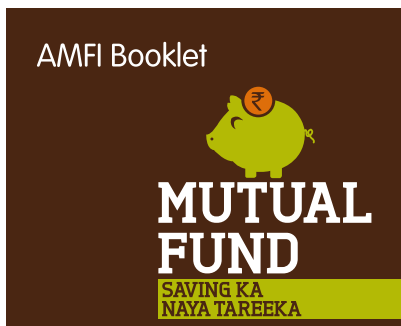
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**The Tortoise Speaks**  
A blog which periodically revisits evergreen investment principles



**SEBI Investor Education Programme Videos**  
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