

# Why equity?

A far-off investment goal can ride out market lows



**HSBC**  
Global Asset  
Management



January 2021

# Why make equities a part of your investment portfolio?



Let's look at a conversation between Rahul and Nakul



Hi Nakul, did you observe the roller coaster ride of equity in 2020?



Yeah, it was a pretty volatile year. But, despite the pandemic and lockdown scenario, market performance was positive.



**Rahul and Nakul are old friends meeting after a long time. They discuss about equity market movement in 2020 and their plans to invest for their kids' higher education.**

Traditional fixed income instruments offer safety of capital and fixed returns.



Yes, I agree on the safety aspect. But, fixed income instruments might not be able to beat the inflation in education costs.



I had thought of investing in equities for my kid's higher education, but this volatility has made me rethink. I would rather invest in traditional fixed income instruments.



Volatility is a part of the equity market in the short term, but it pans out in the long term. Anyways, our kids higher education is at least 15 years from now.



Hmm. But I don't have much expertise in equity investments.



Have you thought of investing in equities through mutual funds? You can not only reduce your investment amount, but also benefit from the asset class over a long-term investment horizon.



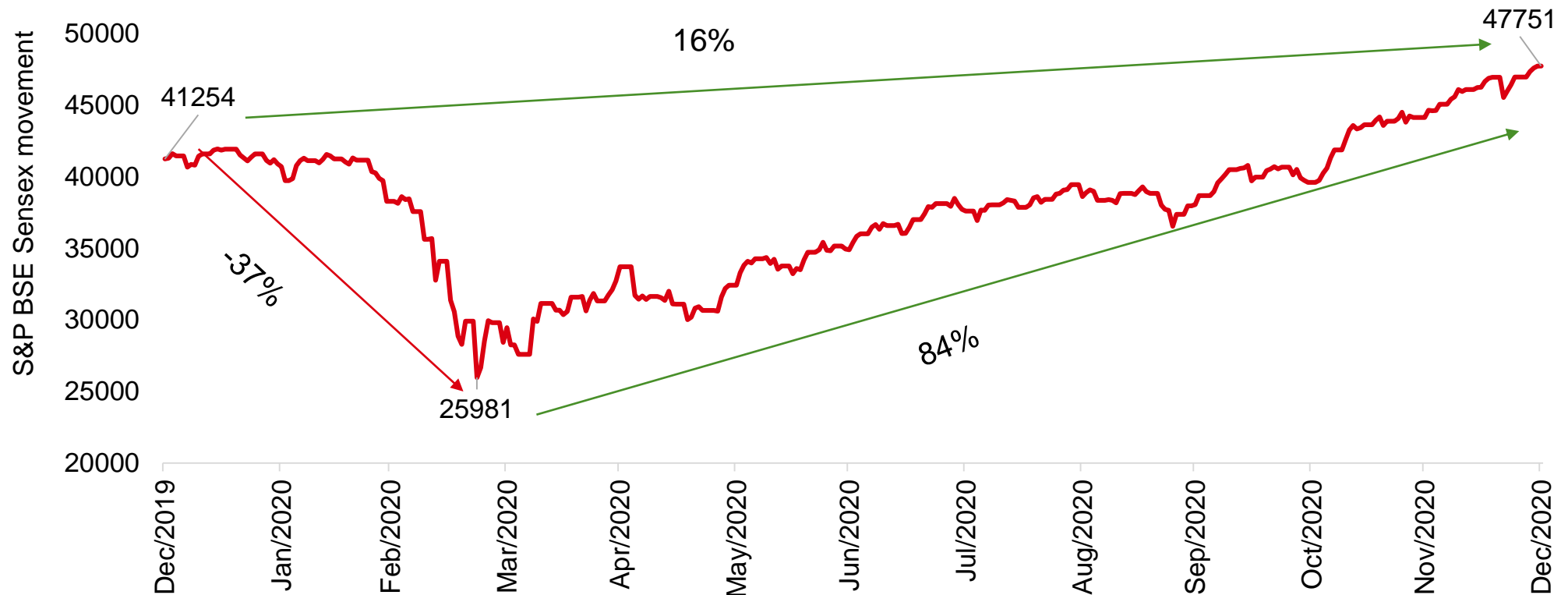
**Systematic investments in equity provide optimum results for investors over the long term**

# Inherent volatility in equity investments pans out over long term



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# Roller coaster ride for equities in 2020, but market at record high



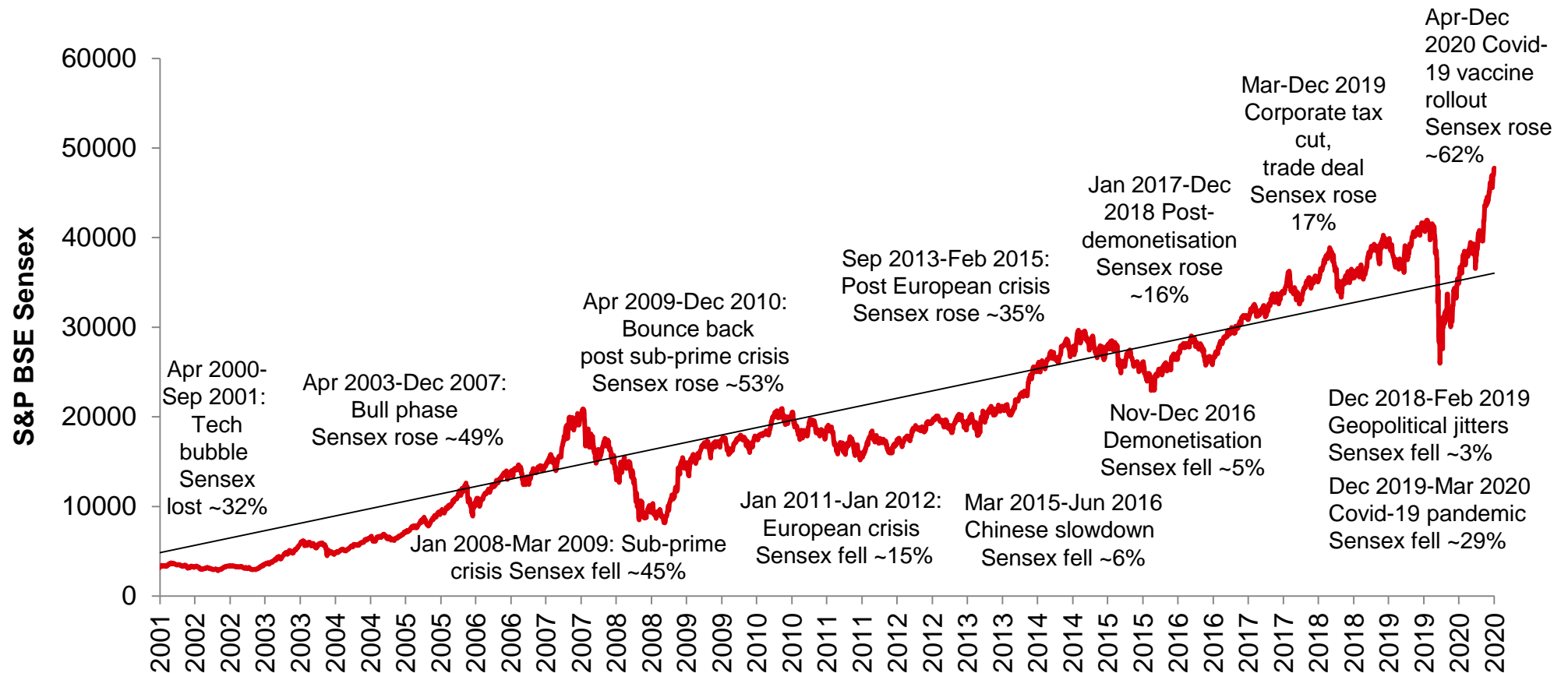
**Covid-19 and lockdown worries dragged down equities in Q1 2020; S&P BSE Sensex fell 37% from the end of Dec 2019, but recovered 84% in the rest 9 months to close at 16% for the year**

Source: CRISIL, BSE, S&P BSE Sensex

Note: Past performance may or may not sustain, past performance does not guarantee future performance

# Long-term trend points to upward movement for equities, though not a smooth ride

Highs interspersed with lows



Source: BSE, CRISIL Research

Notes:

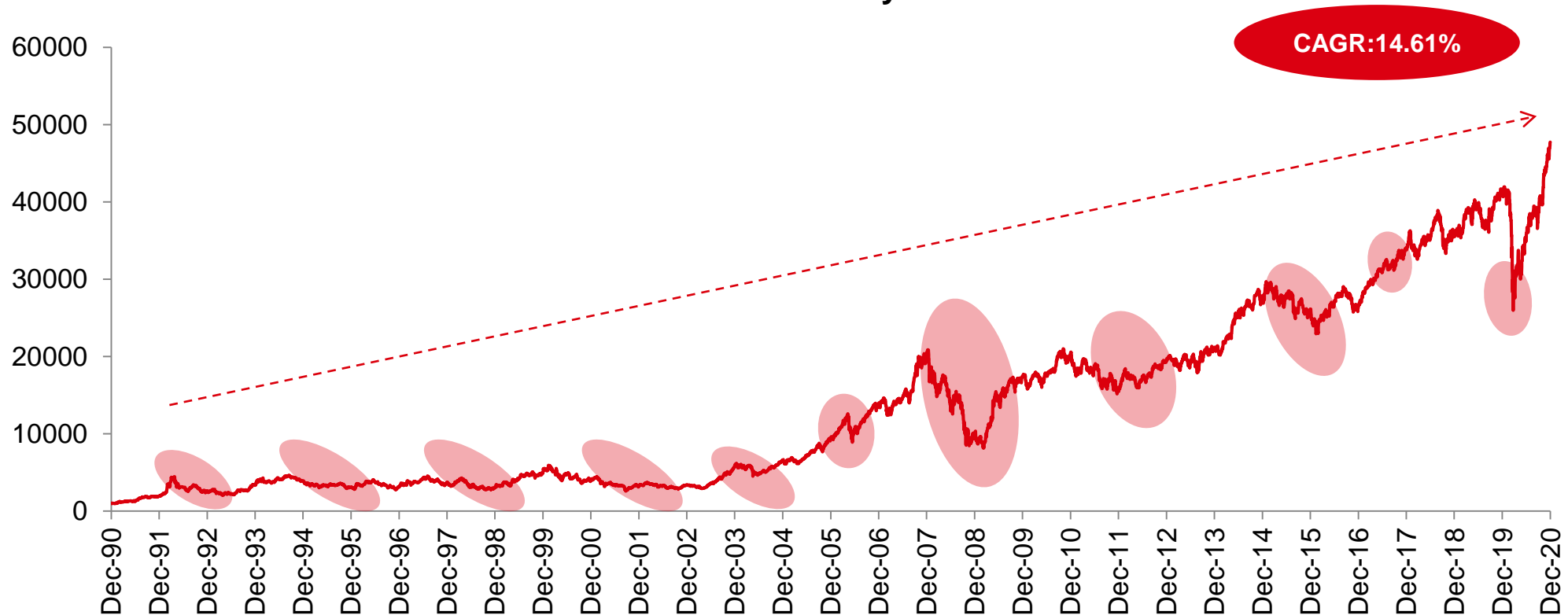
Data as of December 2020

Returns for period less than one year are absolute; otherwise, annualised

Past performance may or may not sustain, past performance does not guarantee the future performance

# S&P BSE Sensex amplified 46 times in the past 30 years at 14.61% CAGR

S&P BSE Sensex – Anatomy of corrections



Note: Highlighted circles represent correction in the market

**Short-term volatility is an inherent part of equity investment**

Source: CRISIL, BSE,

Note: Past performance may or may not sustain, past performance does not guarantee future performance

# Short-term volatility is an intrinsic part of equity investments

Long-term investment pays off

BSE Sensex	3-year rolling returns	5-year rolling returns	7-year rolling returns	10-year rolling returns	15-year rolling returns
Average rolling period returns	16.36%	15.97%	15.69%	15.56%	15.01%
Total time periods (monthly rolling)	463	439	415	379	319
Total number of positive returns*	412	406	390	376	319
Total number of negative returns^	51	33	25	3	0
Positive investment periods	89%	92%	94%	99%	100%

The longer you stay invested, lower is the possibility of negative returns

**In the long term, the probability of incurring losses is lower in equity investments**

Notes:

Monthly rolling returns for respective holding periods since 1979. For instance, in case of 15-year monthly rolling returns, there will be 319 return periods. The first return period will be June 1979-1994 and the last return period will be December 2005-2020

\* Positive returns – The number of investment periods during which returns have been positive. For example, where investment returns have been computed for a 15-year rolling period, 319 months offered positive returns (profits), the number of positive returns period = 319

^ Negative returns – Number of investment periods during which returns have been negative. For example, where investment returns have been computed for a 5-year rolling period, 33 months offered negative returns (losses), the number of negative returns = 33

Source: BSE, CRISIL Research

Notes:

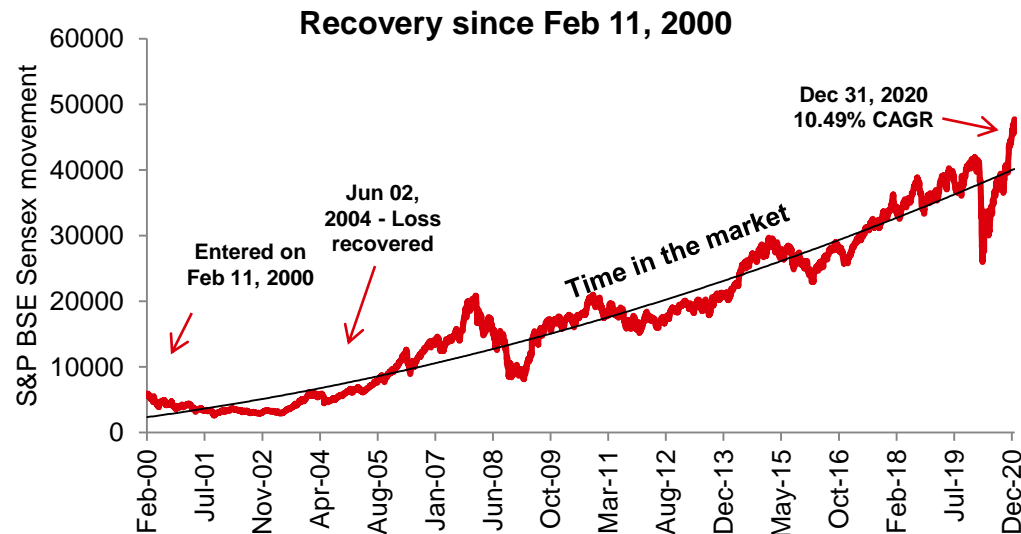
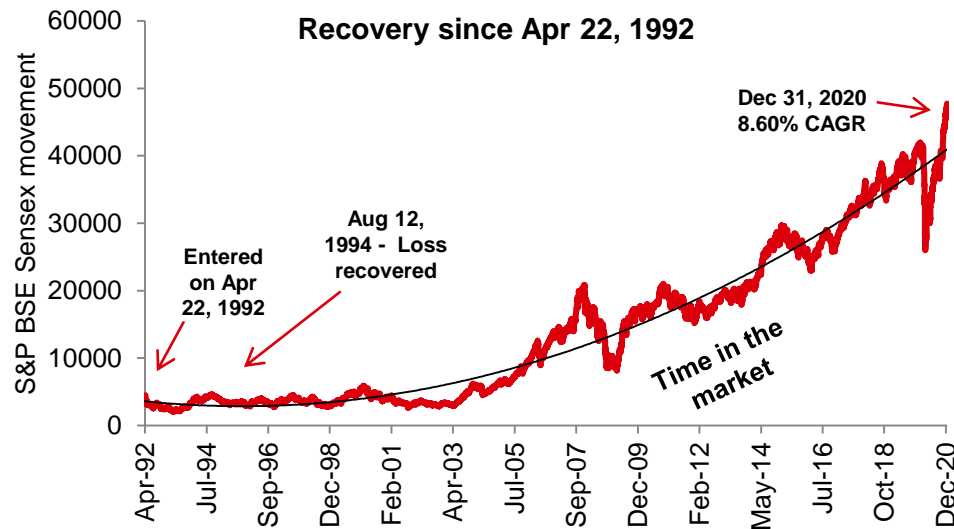
Data as on December 31, 2020

Past performance may or may not sustain, past performance does not guarantee future performance



# A far-off investment goal can ride out market lows

Historical trend shows that after falling, markets have recovered in the medium term



**Equity losses  
are transitory –  
long-term  
outlook can  
earn better  
returns**

Source: BSE, CRISIL Research

Notes:

Data as on December 31, 2020

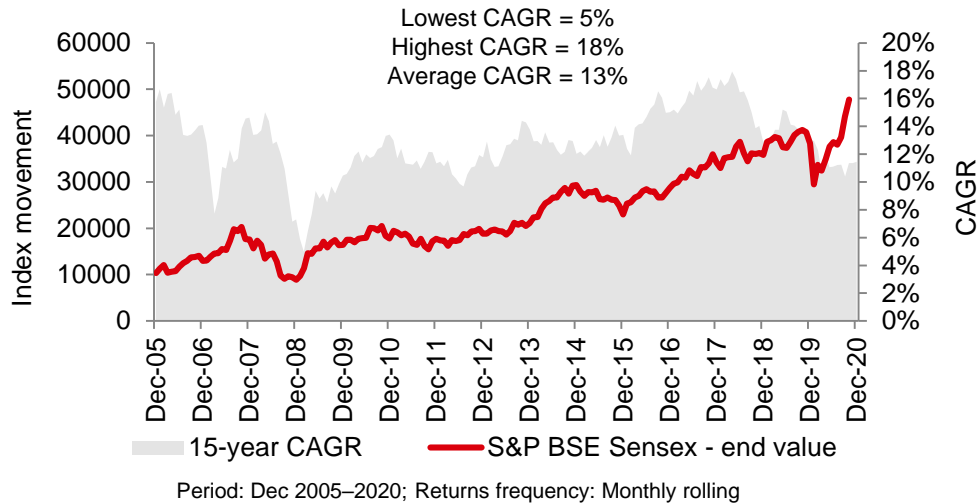
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# Making more by losing less

Consistent, predictable behaviour over longer period

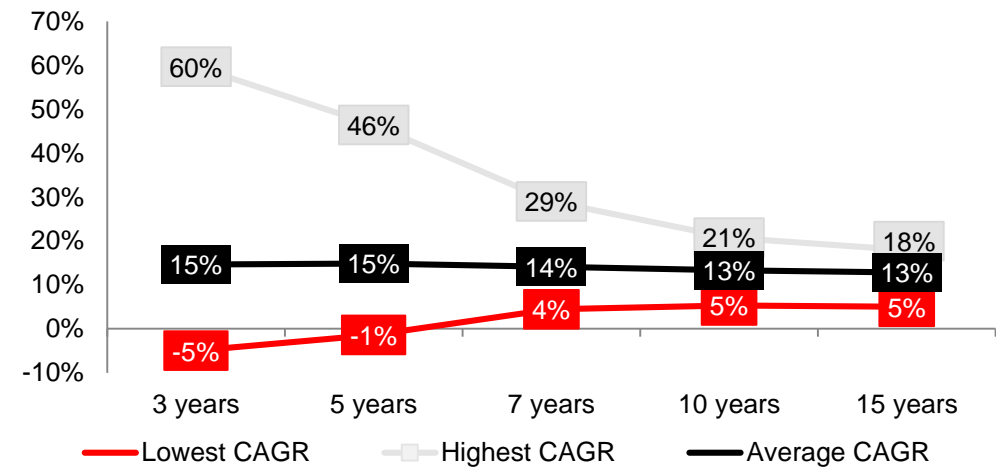
## S&P BSE Sensex 15-year monthly rolling returns



Difference between high and low returns reduces with increase in holding period

100% positive 15-year returns

## S&P BSE Sensex monthly rolling returns for different holding periods



Period: Dec 2005–2020; Returns frequency: Monthly rolling

Source: BSE, CRISIL Research

Notes:

Data as of December 2020

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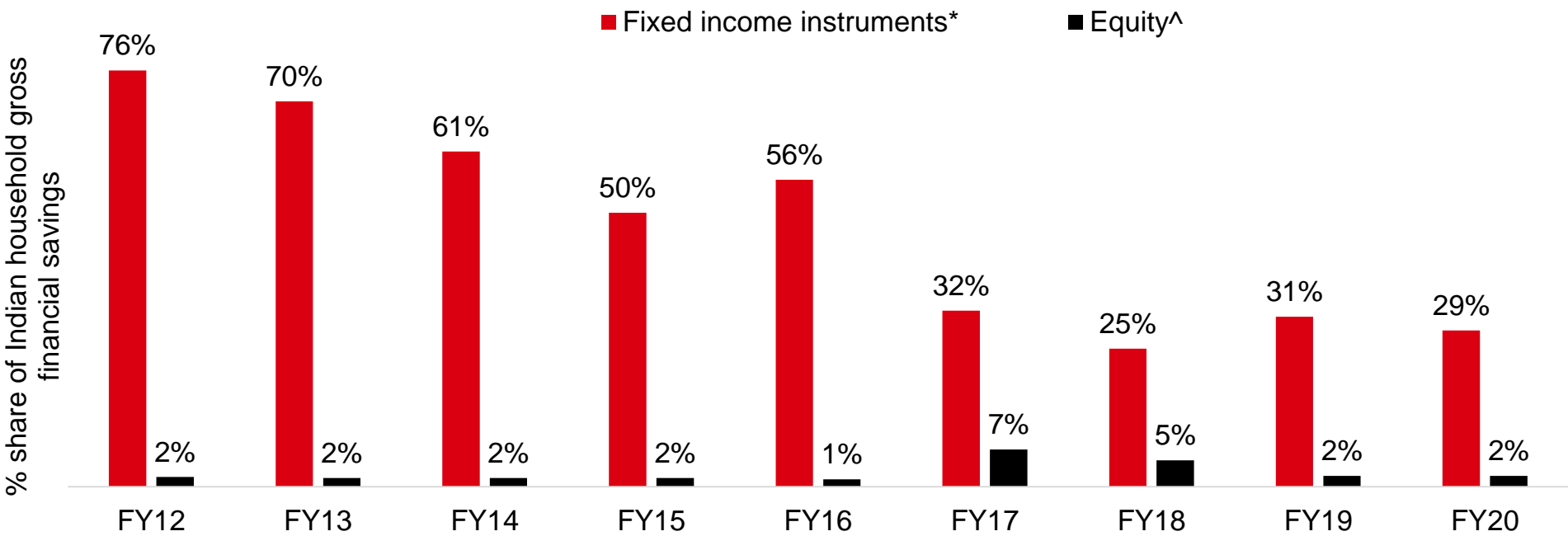
# Investments in equities are better than traditional instruments over long term



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# Fixed income instruments – Traditional investment choice of Indian households

Equity plays a marginal role



**Indian investments remain skewed towards debt**

Source: RBI, CRISIL

Notes:

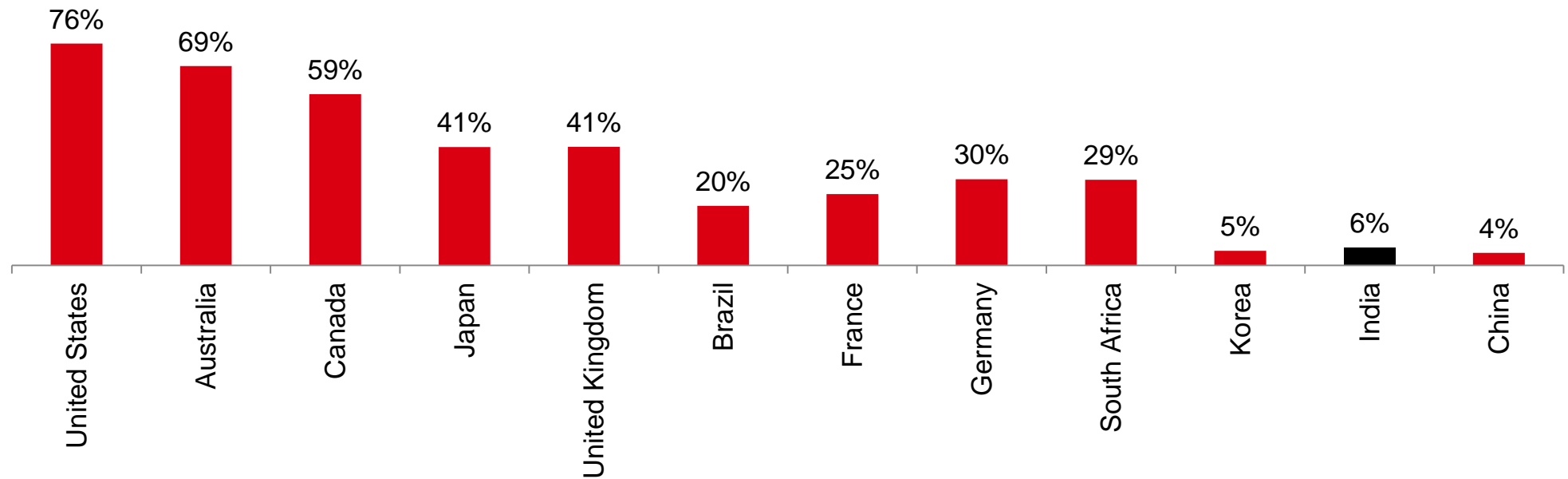
\*Fixed income instruments include deposits and investments in provident and pension funds

^Equity includes investments in shares and debentures

# Equity – The most preferred investment avenue globally

Developed countries have higher affinity to equity

◆ Emerging economies are significantly under-exposed to the equity asset class compared with developed economies



**India has one of the lowest equity exposures of only 6%**

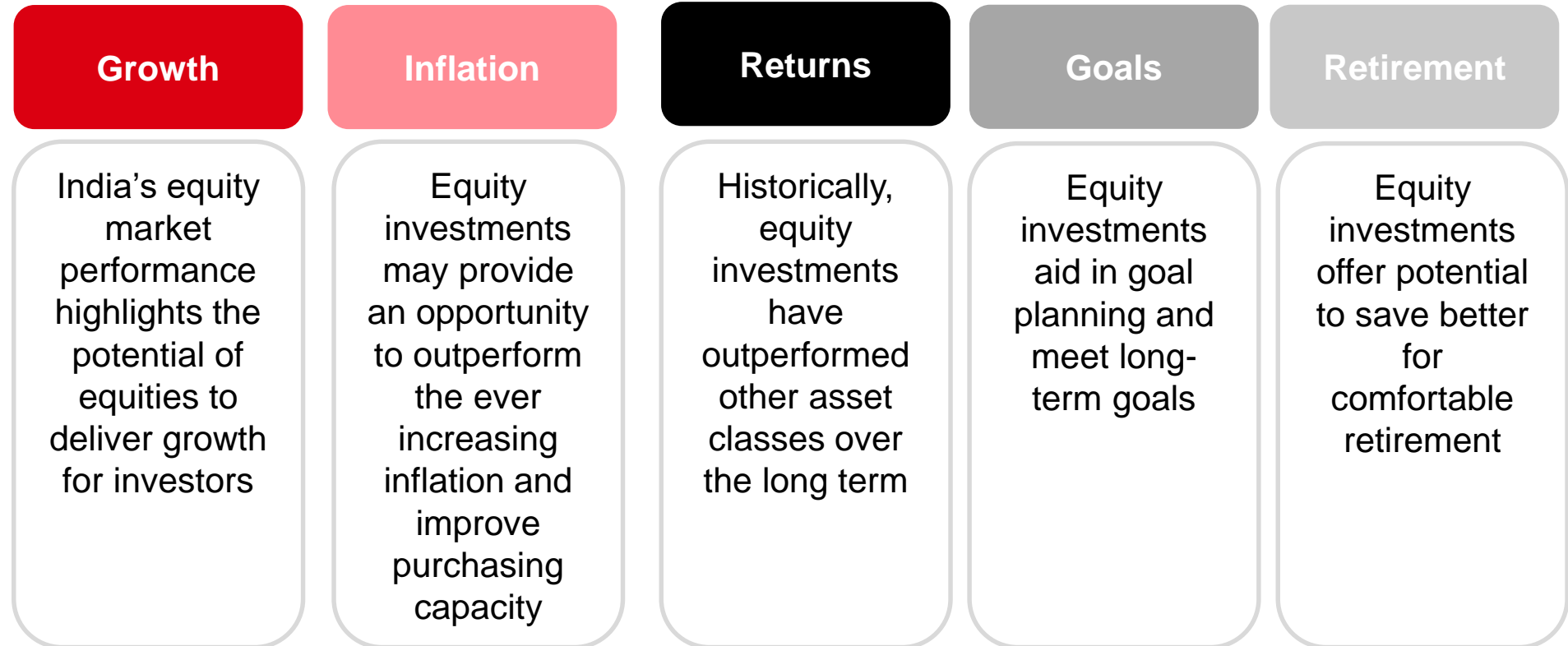
Source: CRISIL, IMF, IIFA

Notes:

GDP data as of December 2020; assets data as of Q3, 2020 as per latest available

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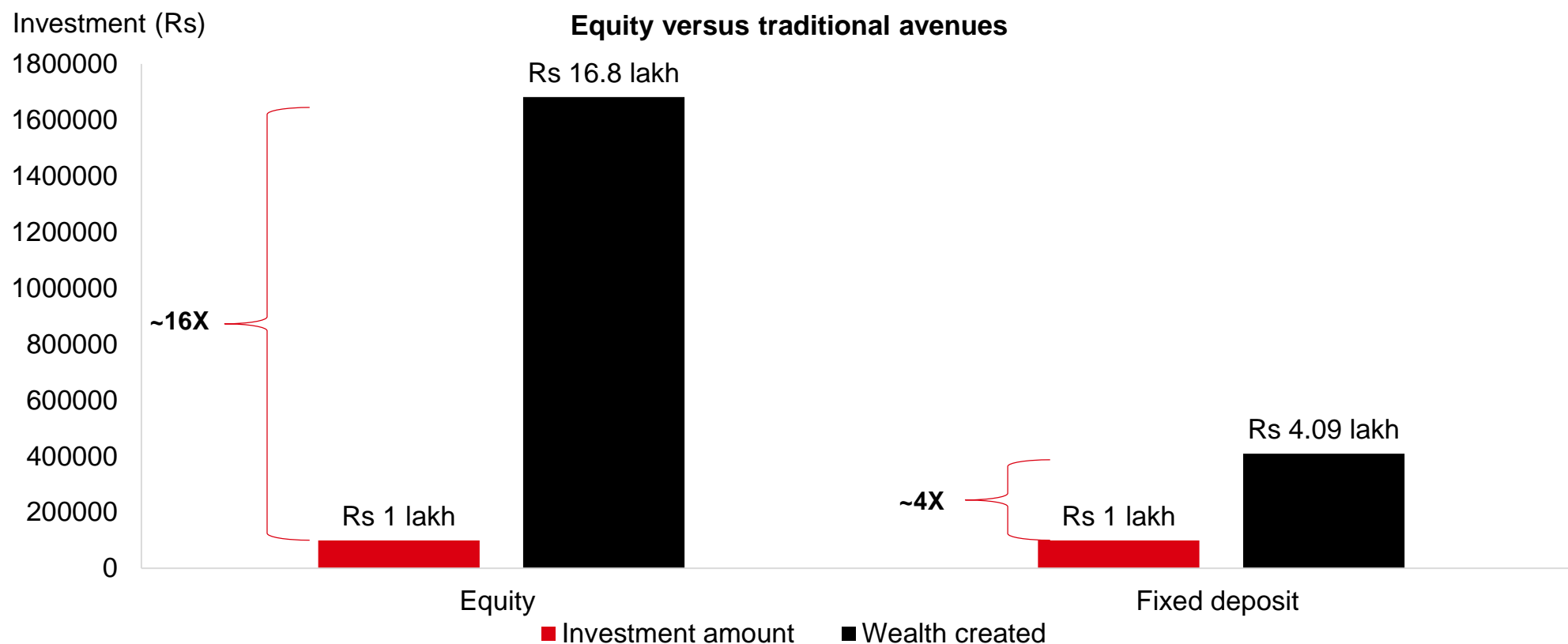
# Five reasons why you should invest in equities



**Equity investment is relatively less explored in India compared with other options**

Past performance may or may not sustain, past performance does not guarantee the future performance

# Create wealth in the long run through equities



**Rs. 1 lakh investment in the S&P BSE Sensex grew to Rs. 16.8 lakh versus a mere Rs. 4.09 lakh in fixed deposit<sup>^</sup> in 20 years period**

Source: BSE, CRISIL

Notes: <sup>^</sup>Fixed deposit is represented by 1-year FD index

\*CAGR returns for S&P BSE Sensex and 1-year FD index for the period between December 31, 2001 till December 31, 2020 is considered for analysis

Past performance may or may not sustain, past performance does not guarantee the future performance.

# Equities well-suited for India's young demography

Scope to increase equity allocation

- ◆ Young investors can have higher equity exposure owing to higher risk appetite

**India is likely to remain a young country in the future**

Share of 15-49-year-olds in the country's population			
Country / region	2020	2035	2050
Australia	47%	44%	43%
Brazil	54%	48%	41%
China	49%	44%	38%
India	54%	52%	47%
Japan	40%	35%	33%
Russian Federation	46%	44%	43%
South Africa	54%	52%	49%
United Kingdom	44%	43%	41%
United States of America	46%	45%	42%

**Young investors can invest more in equity to benefit from long-term compounding**

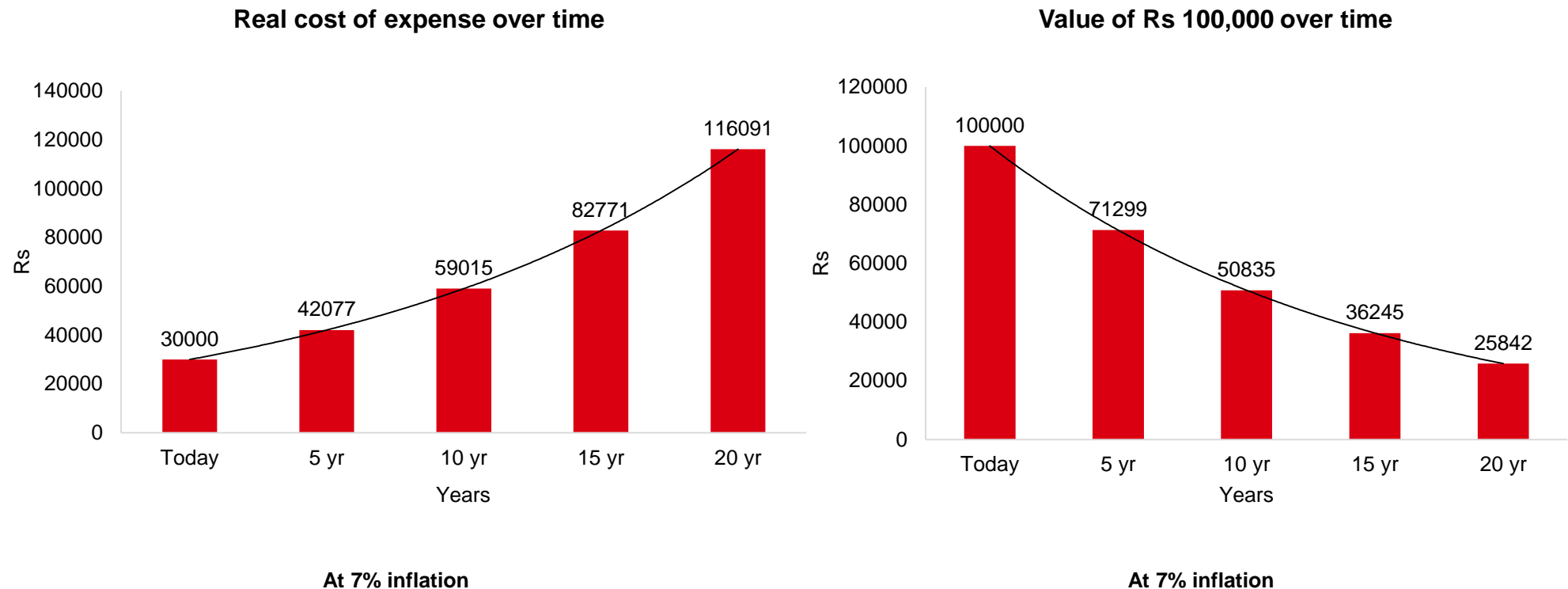
Source: CRISIL, UNCTAD

Note: Past performance may or may not sustain, past performance does not guarantee the future performance.



# Savings are not enough since inflation eats the value of money

If our expenses are real, returns should also be real



**Inflation not only increases cost of products, it also reduces value of money**

Source: Labour bureau.nic.in, CRISIL

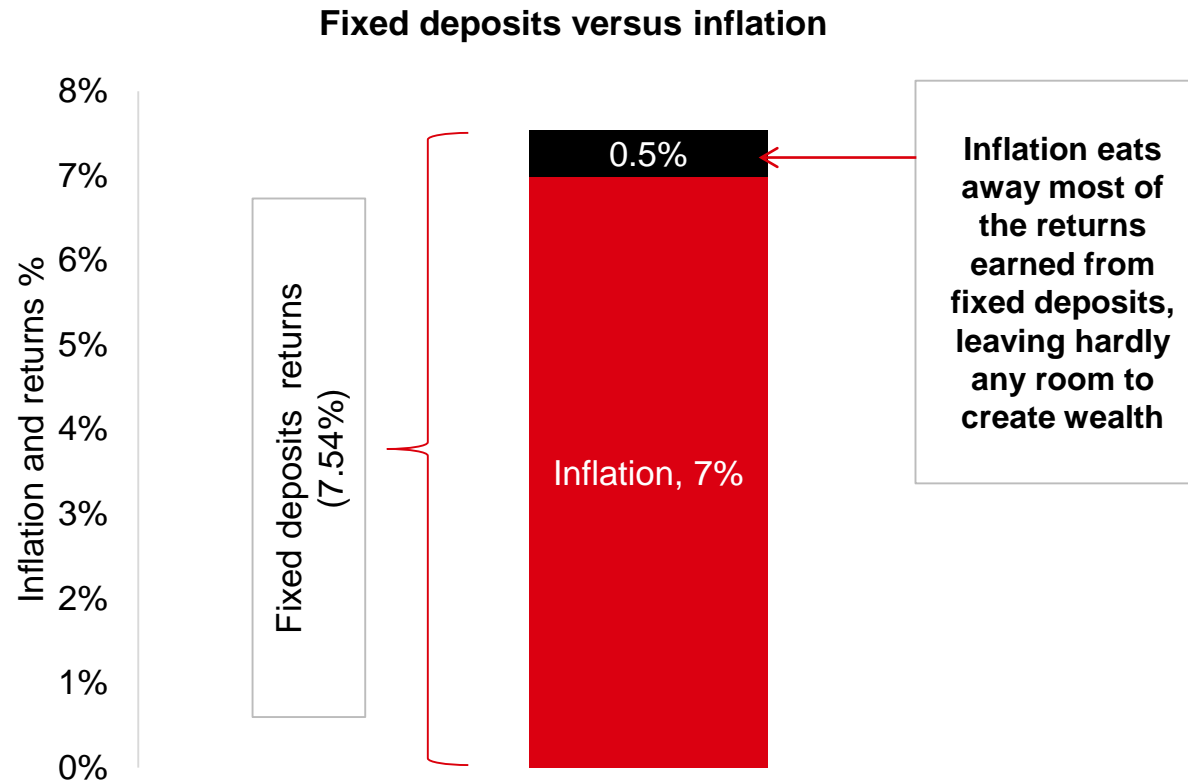
Notes:

Inflation represented average of monthly inflation of industrial workers declared since January 1993 till November 2020

Past performance may or may not sustain, past performance does not guarantee the future performance.

# Traditional savings do not offer enough cushion

Inflation generally consumes investment capital



**The difference between saving and investing is the ability to provide an affordability cushion by beating inflation on a regular basis**

Source: CRISIL Research, Labour bureau

Notes:

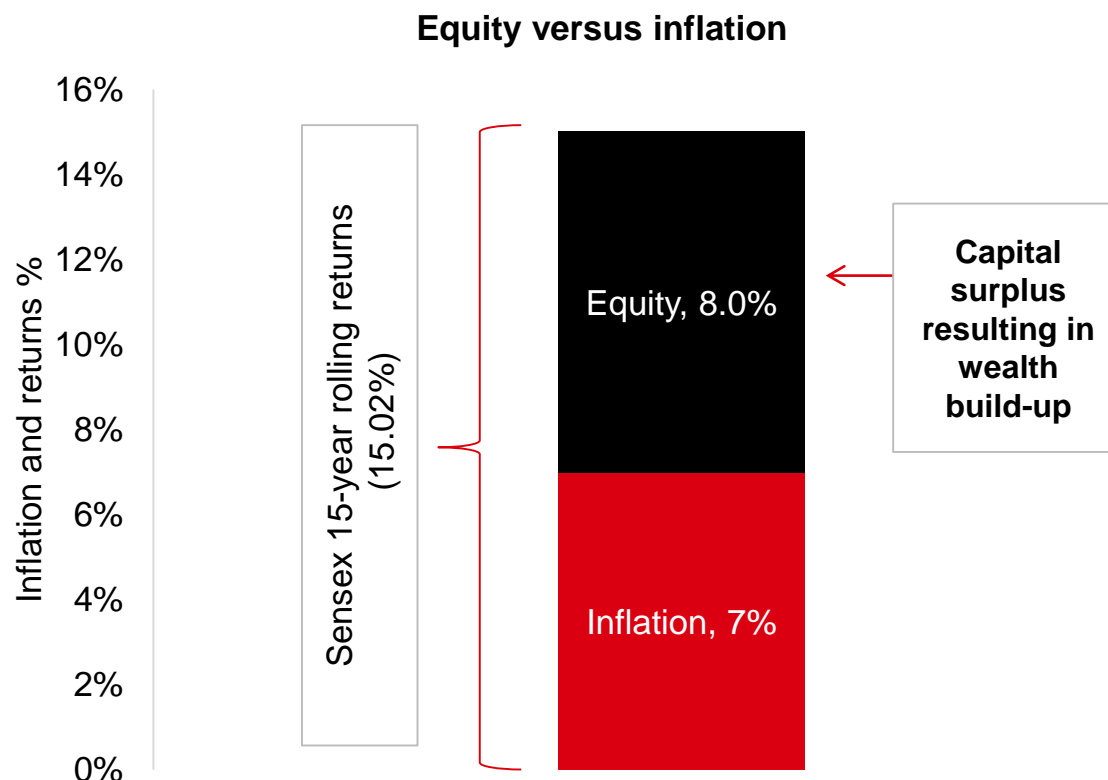
Fixed deposit rate represented by 1-year FD index's annualised returns since October 1999 till December 2020

Inflation represented average of monthly inflation of industrial workers declared since January 1993 till November 2020

Past performance may or may not sustain, past performance does not guarantee future performance.

# However, equities cushion ever-increasing cost of living

The smartest way to create wealth



**Regular investment in equity helps tackle the rise in cost of living and plan for future goals**

Source: BSE, Labour bureau, CRISIL

Notes:

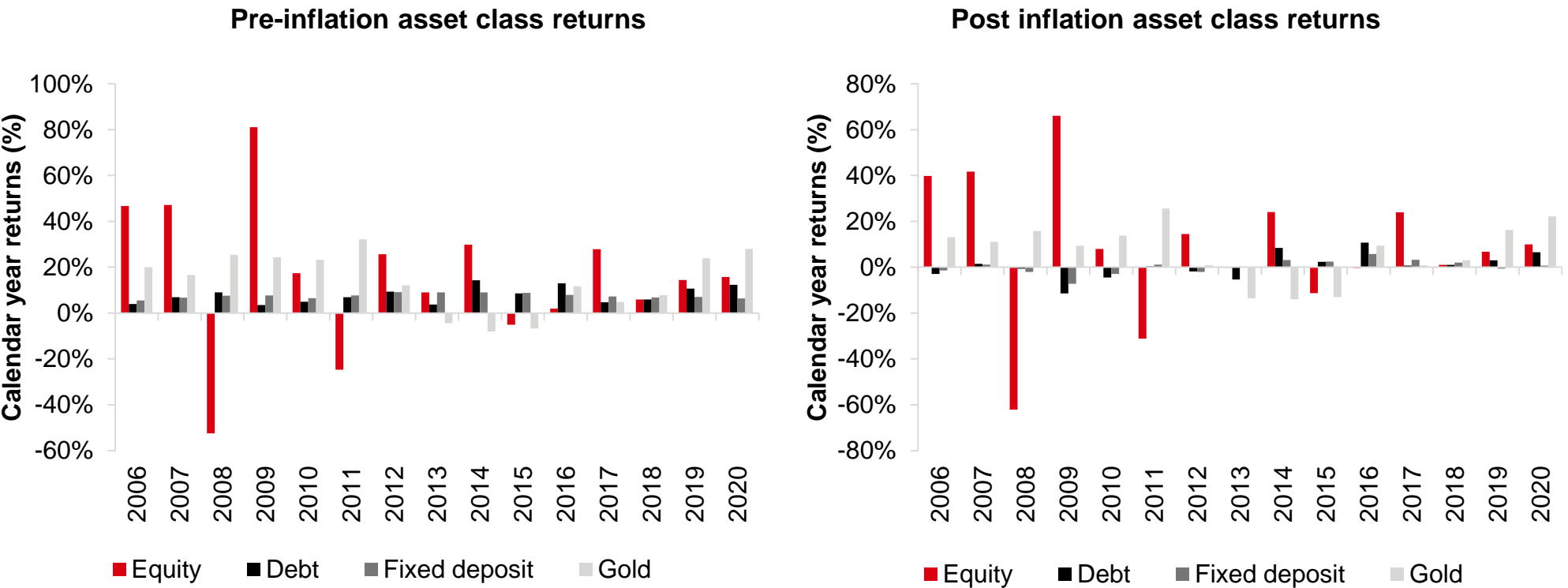
Equity returns represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till Dec 2020

Inflation represented average of monthly inflation of industrial workers declared since January 1993 till November 2020

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# Calendar year returns show equity performs better than other assets

Pre- and post-inflation returns

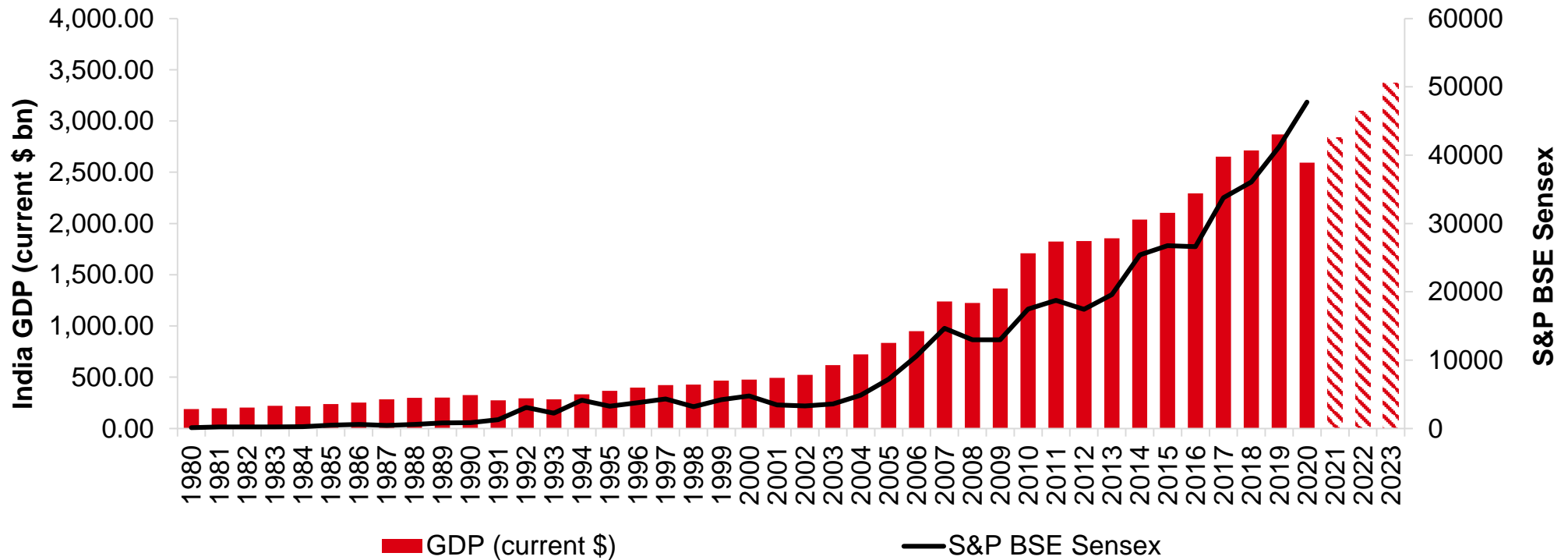


**Equity has outperformed other asset classes in most calendar years**

Source: BSE, CRISIL, Labour bureau  
Notes:  
Data as of December 2020  
Year-on-year returns for all asset classes  
Equity represented by S&P BSE Sensex, debt by CRISIL Composite Bond Index, fixed deposit rate represented by 1-year FD index, gold by Indian gold prices, and inflation by the annual CPI-Industrial worker. Past performance may or may not sustain, past performance does not guarantee the future performance.

# Equity mirrors economic growth in the long term

India expected to remain on long-term growth trajectory



GDP data after 2020 are projections

**Equity offers opportunity for long-term wealth creation**

Source: BSE, IMF, CRISIL

Notes:

GDP projection starts after year 2020 and is shown shaded in this graph is for illustration purposes only and is not guaranteed.

The projection contained in this graph is for illustration purposes only and is not guaranteed.

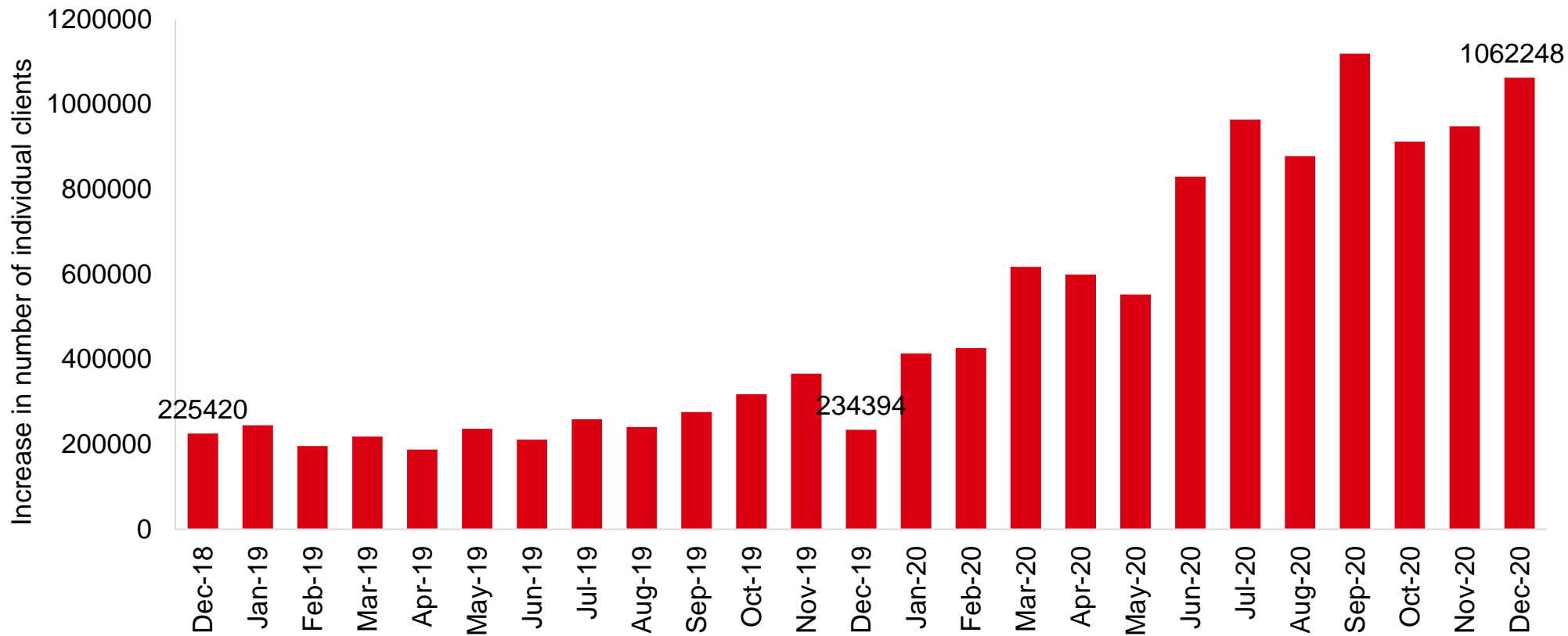
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# Mutual funds, a better alternative to investing in equity

Mutual fund investments are subject to market risks, read all scheme related documents carefully.  
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# Direct equity participation saw massive jump in 2020

Surge in Demat accounts as equity market rallied to record highs

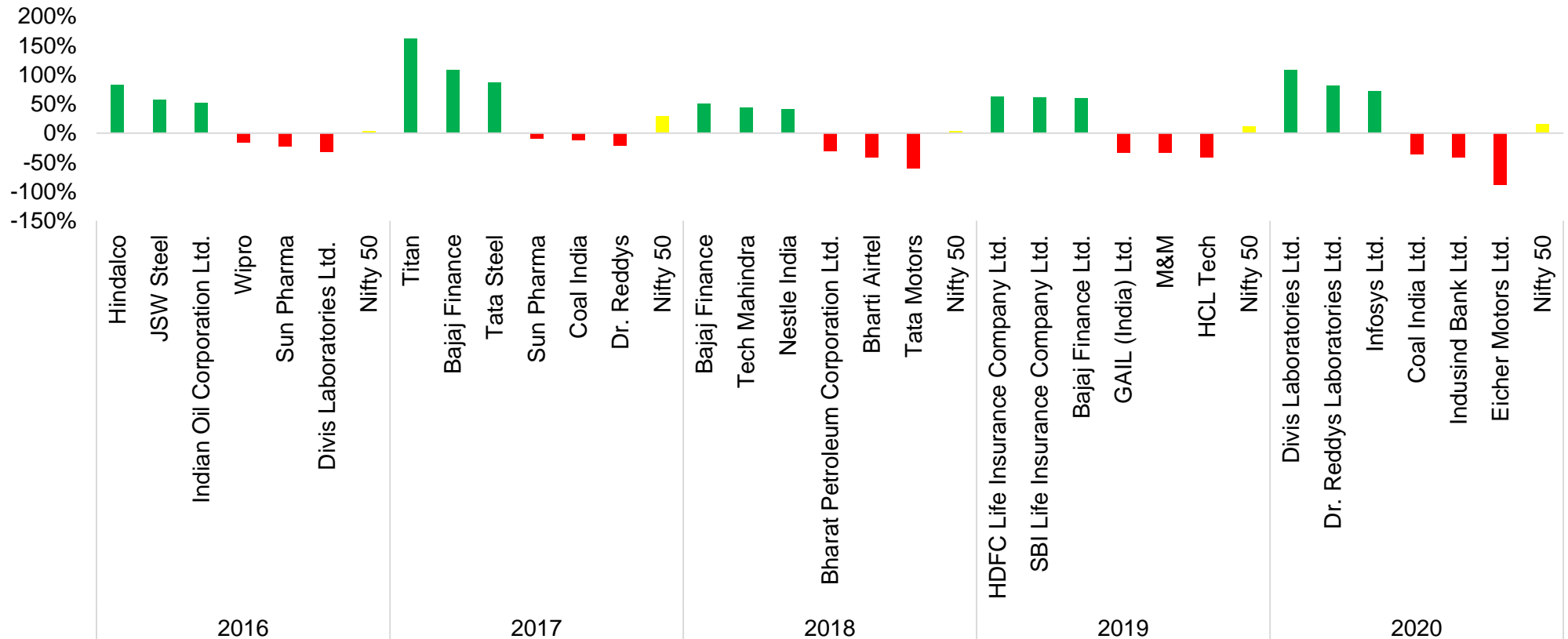


**Despite market volatility brought on by the pandemic, the number of individual investors opening accounts for direct investments has surged.**



# Direct equity investment calls for proficiency in selecting stocks

Variance in the returns of the top three and bottom three Nifty stocks versus the index



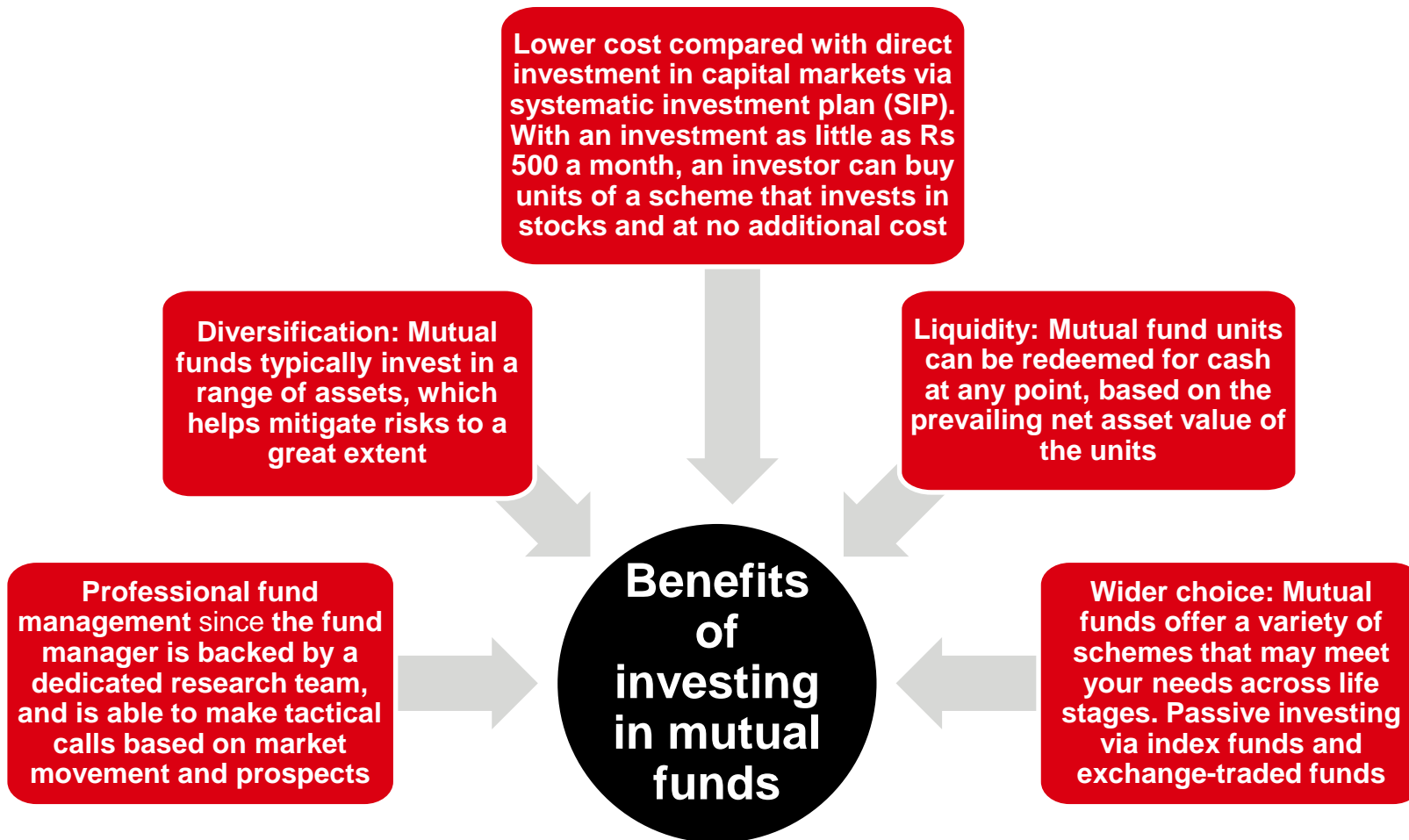
**The domestic stock market has over 5,000 listed stocks, which makes selecting the right stock for investment a herculean task**

Source: NSE, CRISIL, Data till 31 December 2020

Nifty 50 stock composition as at December 2020 used for performance analysis

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# Equity mutual funds are an optimal way to invest in equity



**Individual investors would be better off diversifying their investment through equity mutual funds, to benefit from the capital market over the long term**

# Equity mutual funds provide an array of investment strategies and options

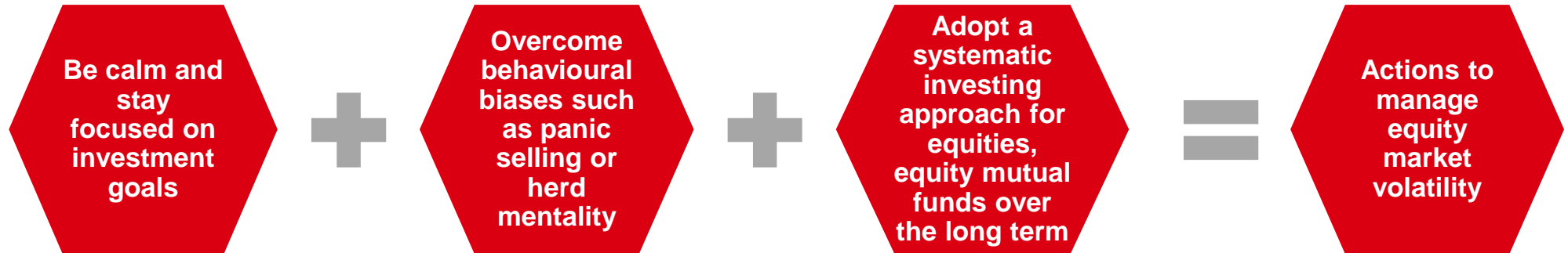
Raft of options available for both active and passive funds

Actively managed]		Passively managed	
Market-cap based	Flexi-cap	Index funds/ Exchange traded funds (ETFs)	Broad market tracking funds
	Multi-cap		
	Large-cap		
	Large & mid-cap		Sectoral index tracking funds
	Mid-cap		
	Small-cap		
Strategy-based	Dividend yield fund		Global index tracking funds
	Value fund		
	Contra fund		
	Focussed fund		Smart beta index tracking funds
Thematic and tax saving	Sectoral/thematic fund		
	Equity linked saving scheme (ELSS)		

Equity mutual fund investments offer a variety of options – both active and passive – across market capitalisation, themes and strategies

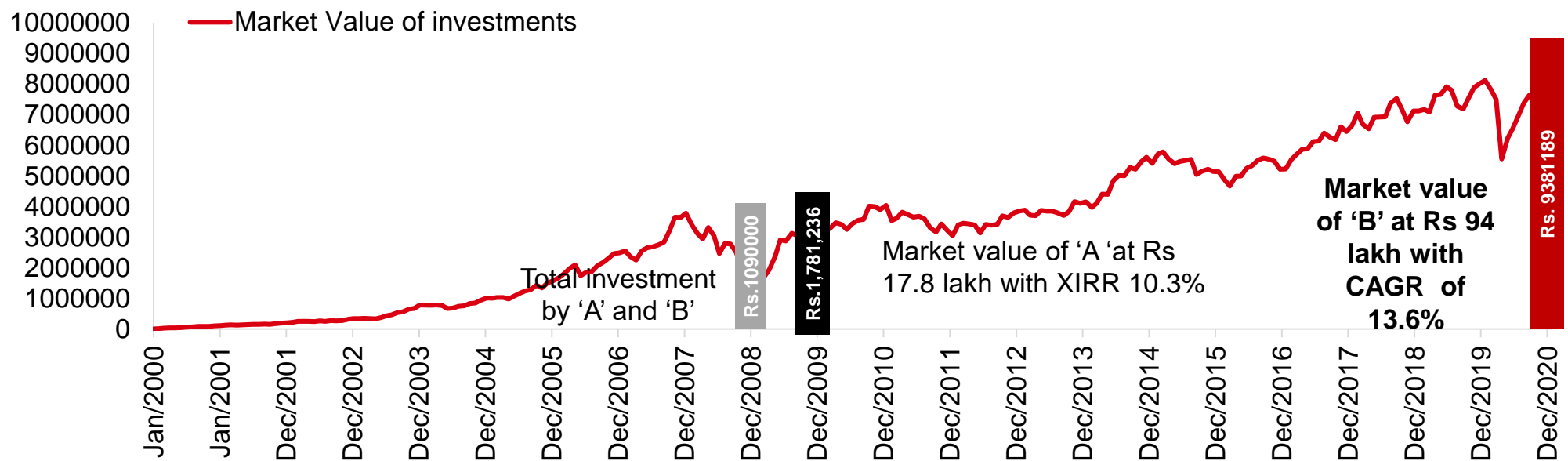
# **Choose SIPs to achieve long-term goals**

# Adopt a long-term systematic investing approach to tide over market volatility



# Investors who redeem/stop investments lose out on long-term opportunities

- ◆ A and B started their SIPs in January 2000, with both investing Rs 10,000 per month
- ◆ Everything was fine with their investments until the 2008 Global Financial Crisis (GFC)
- ◆ While A redeemed his investments, B stopped his investments, but did not withdraw his money
- ◆ A received ~Rs 17.80 lakh from his cumulative investment at an XIRR of 10.3% in 2009. B, who had retained his investments, had a corpus of ~Rs 93.82 lakh as of December 2020 (same amount of investment) and an XIRR of ~13.6%



Notes: The performance is calculated till December 31, 2020

Data as at December 31, 2020

Monthly SIP of Rs10,000 in S&P BSE Sensex from January 2000 on the first day of the month

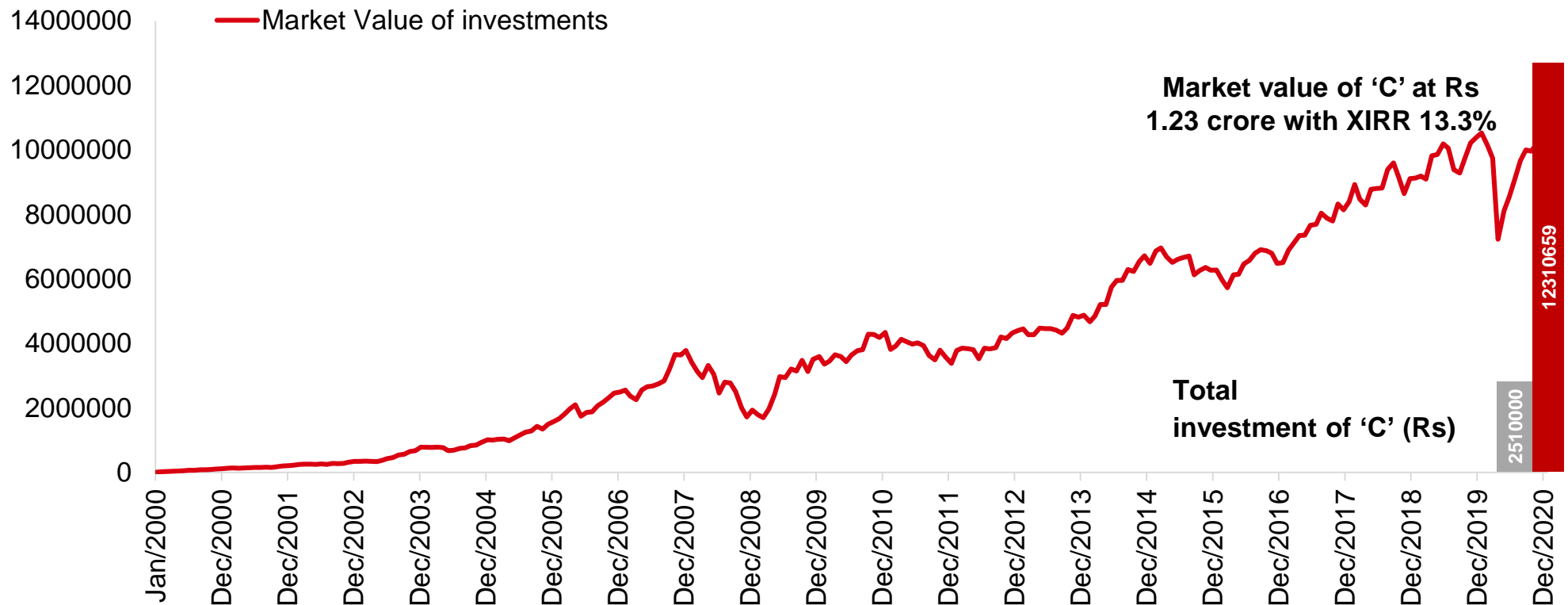
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Past performance may or may not sustain, past performance does not guarantee the future performance

Source: BSE, CRISIL Research

# Investors who continue their SIPs gain from long-term opportunities

- ◆ C started investing Rs 10,000 per month in January 2000 and persisted with his investment over the years. His total investment of Rs 24.1 lakh had a market value of Rs 1.23 crore in December 2020 with an XIRR of over 13.3%



Notes: The performance is calculated till December 31, 2020

Data as at December 2020

Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month

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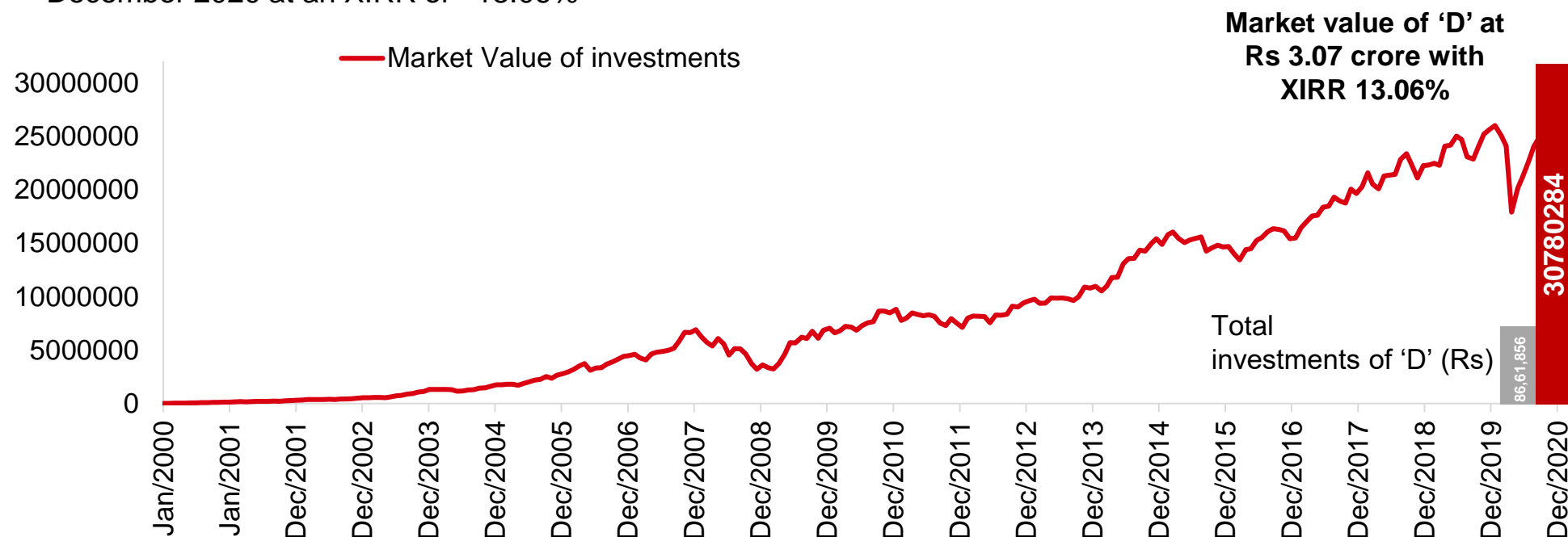
Source: BSE, CRISIL Research



# Investors leverage market downturns to derive higher benefits (1/2)

## Incremental SIPs during market downturns

- ◆ D had a similar starting point of investment journey by investing Rs 10,000 per month since January 2000
- ◆ However, he increased his monthly investment value by 10% every time the market fell 10% in a single month
- ◆ This increased SIP investment is retained till the next similar fall and the process continues
- ◆ The resultant impact on his investment of ~Rs 87 lakh is visible – his investment compounded to Rs 3.07 crore as of December 2020 at an XIRR of ~13.06%



Note: The performance is calculated till December 31, 2020

Data as at December 31, 2020

Monthly SIP of Rs.10,000 in S&P BSE Sensex from January 2000 on the first day of the month

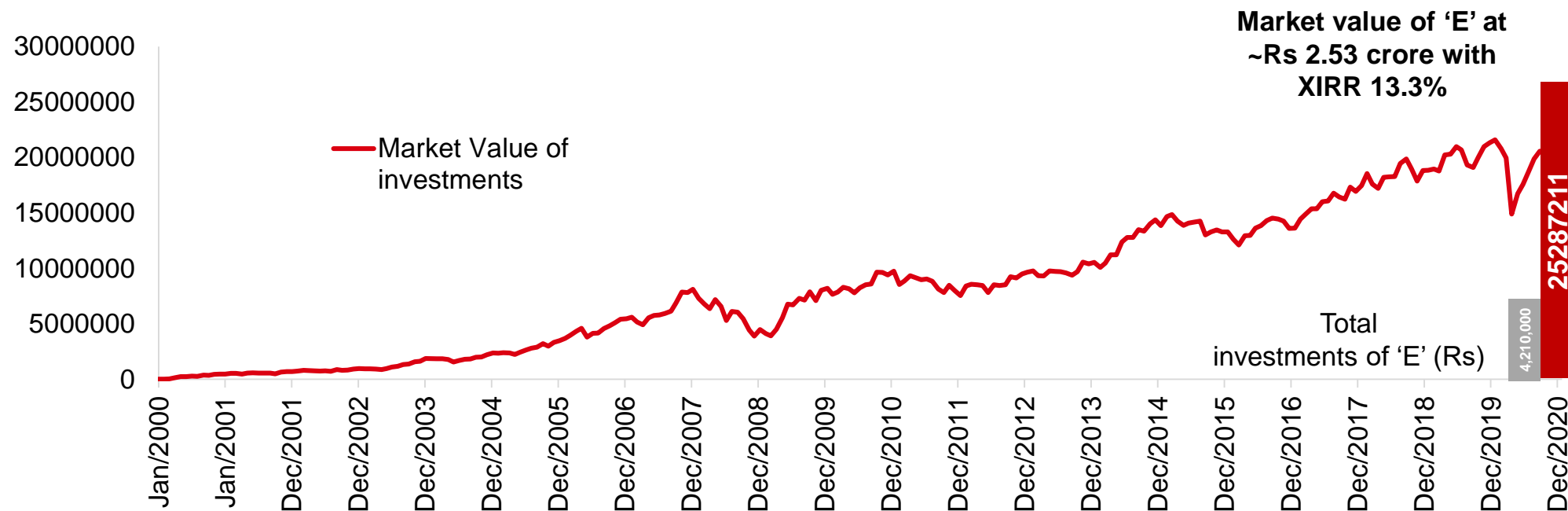
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Source: BSE, CRISIL Research

# Investors leverage market downturns to derive higher benefits (2/2)

## Lump sum investment additions during market downturns

- ◆ E made lump sum investments during market downturns to derive higher benefits
- ◆ He invested Rs 1 lakh each month after markets fell 10% in a single month, in addition to his regular SIP amount of Rs 10,000 (total of Rs 1.1 lakh)
- ◆ As a result, his investment of Rs 42.1 lakh grew to ~Rs 2.53 crore in December 2020 at an XIRR of 13.3%



Source: BSE, CRISIL Research

Notes: The performance is calculated till December 31, 2020

Data as at December 31, 2020

Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month

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# Look beyond market downturns and stay invested in SIPs for the long term

- ◆ Even if SIPs remain in the red, stay invested for the long term as gradual market recovery will increase corpus value and overall SIP returns
- ◆ We undertook a scenario analysis to understand the implications of various types of mutual fund investor behaviour during market volatility, and the associated benefits
- ◆ Investors A, B C, D and E began investing Rs 10,000 in an equity SIP in S&P BSE Sensex from January 2000. However, their approach to market volatility differed:
  - A redeemed his investment after the GFC
  - B stopped SIPs due to the volatility seen during the GFC, but retained his investments
  - C continued his SIP at the same pace
  - D increased his monthly SIP investment by 10% after every monthly fall of more than 10%
  - E added a lump sum investment of Rs1 lakh after every monthly fall of more than 10%

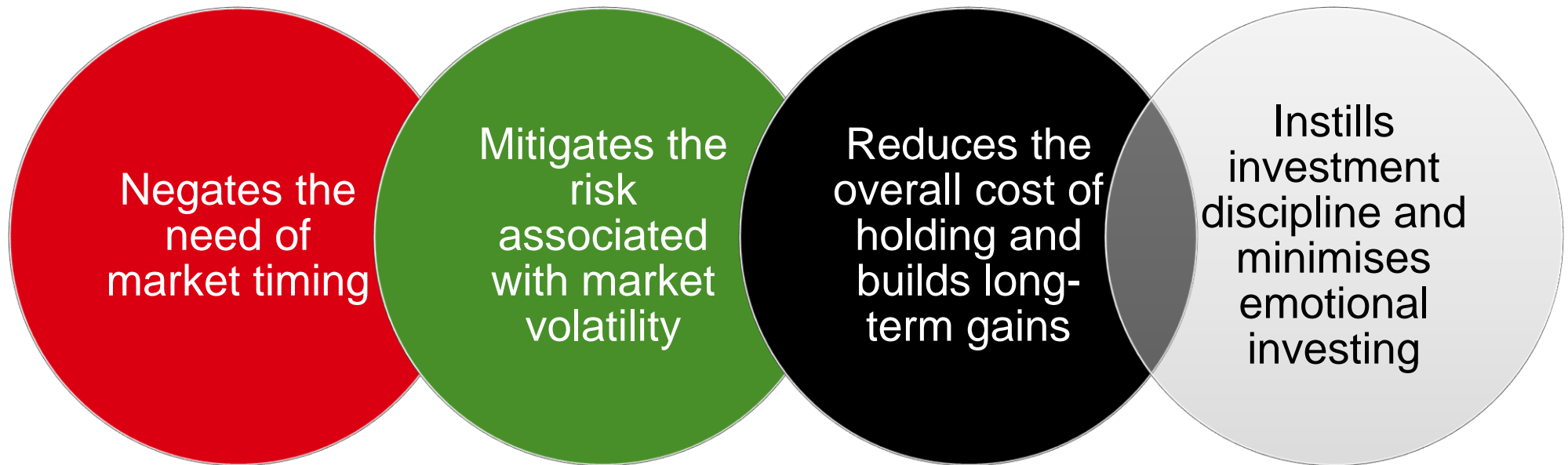
	A	B	C	D	E
Total amount invested (Rs lakh)	10.9	10.9	25.1	86.6	42.1
Total value at the end of Dec 2020 (~Rs lakh)	17.8	93.8	123.1	307.8	252.8

## How they fared

- ◆ A missed out on accumulating more units and increasing his corpus, while B benefitted from retaining investments, but could not leverage gains in rupee terms
- ◆ C persevered and benefitted from his disciplined investments. However, D and E leveraged market downturns to invest more and boost their end-investment corpus

# Rupee cost averaging

- ◆ SIP ensures a regular fixed investment at different points of time, which ultimately results in investors buying more units when market falls and less units when market rises. This averages the cost per unit of investment (rupee cost averaging)
- ◆ Rupee cost averaging is beneficial for investors in many ways as shown below



# Achieve your long-term goals

Rahul and Nakul can achieve their goals of funding their kids' education with a lower investment by investing systematically in equity mutual funds. The surplus can be used to target other life goals

	Fixed income instruments	Equity
Goal	Higher education for kid	
Current cost of goal	Rs 8.8 lakh*	
Goal period	15 years	
Future cost	Rs 24.28 lakh^	
Monthly investment amount needed to achieve goal	~Rs 3,587@	~Rs 7,261#

**Systematic investments in equity provides optimum results for investors over the long term**

Notes: Source: CRISIL

\*IIT Bombay,

Assuming inflation of 7%, which was the average inflation rate of industrial workers since January 1993 till November 2020

@Grown at 15% represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till December 2020

#Grown at 7.54% represented by 1-year FD index returns between October 1999 and December 2020

The projections in this graph are for illustration purposes only and not guaranteed

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# In a nutshell

Equity is a long-term capital growth solution

- ◆ The future is uncertain; prediction is risky
- ◆ Preserve and, if possible, grow capital on a real-term basis over the long term
- ◆ Avoid permanent capital impairment through risk-averse capital allocation
- ◆ Target outperformance only over a full cycle
- ◆ Invest systematically in equity over the long term to derive optimum investment results

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***“Someone is sitting in the shade today because someone planted a tree a long time ago” – Warren Buffett***



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