Capital SPROUT

NEWSLETTER

JULY 2023

Mindful Money Matters:

Exploring the Psychology of Investment

The Chairman's Message

Dear readers,

Greetings!

In this edition of our newsletter, we delve into the topic that touches every aspect of our lives: the Psychology of Money. Beyond the numbers and transactions lies a profound journey of emotions, beliefs, and attitudes that shape our financial decisions.

Money, often considered a mere tool, becomes a mirror reflecting our values, fears, and aspirations. Our relationship with money transcends mere economics; it's a glimpse into our inner selves. This issue uncovers the intricate tapestry of thoughts and behaviors that influence how we earn, spend, and save.

As we explore the pages ahead, let's examine how our upbringing, experiences, and cultural influences mould our financial psyche. Let's learn how to navigate the delicate balance between financial security and the pursuit of financial success.

I hope this edition of our newsletter provides you helpful insights into making mindful choices, fostering healthy money mindsets, and ultimately leading you to a healthier relationship with money and all things investment.

Happy Reading!

CA DR Rajesh Khandol

Investment Psychology

Financial outcomes are often driven by luck, independence of intelligence and effort. That is true to some extent. Financial success is not that difficult to achieve as it requires more soft skills than understanding the technicalities of a mathematical formula to calculate profit. In the world of finance, how you behave is more important than what you know. But investing is not a hard science. It's a massive group of people making imperfect decisions with limited information about things that will have a massive impact on their well-being, which can make even smart people nervous, greedy and paranoid.

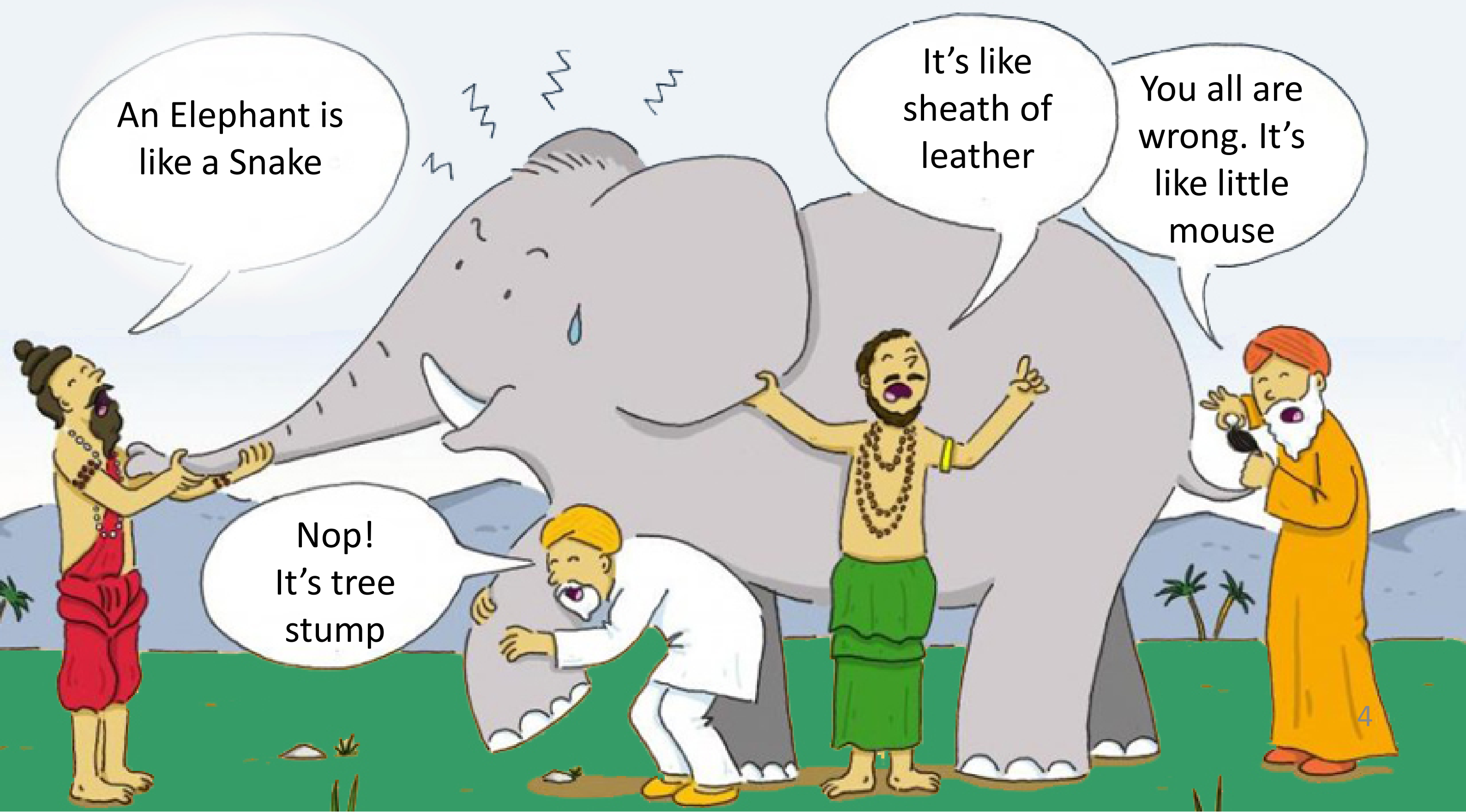
A genius who loses control of their emotions can be a financial disaster. The opposite is also true. Ordinary folks with no financial education can be wealthy if they have a handful of behavioral skills that have nothing to do with formal measures of intelligence.

Engineers can determine the cause of a bridge collapse because there's agreement that if a certain amount of force is applied to a certain area, that area will break. Physics isn't controversial. It's guided by laws. Finance is different. It's guided by people's behaviors. And how I behave might make sense to me but look crazy to you.

In our diverse world, individuals hail from varied backgrounds and cultures that profoundly shape their outlooks on various aspects of life. Money and investment perceptions are no exception, moulded by surroundings, circumstances, and past experiences. While some may attribute significant importance, say 80%, to their philosophies, in the realm of investment strategy, this may only carry a modest 10% weightage. A striking illustration lies in investors who commenced their journey during the years 1993-1998, a period marked by the Harshad Mehta case, possibly fostering a negative view of the stock market. Such initial impressions can unduly influence future investment decisions, yet they might be rooted in biases rather than objective analyses of current realities and facts.

Your personal experiences with money make up maybe 0.00000001% of what's happened in the world, but maybe 80% of how you think the world works. So equally smart people can disagree about how and why recessions happen, how you should invest your money, what you should prioritize, how much risk you should take, and so on.

In theory, people should make investment decisions based on their goals and the characteristics of the investment options available to them at the time.



Financial advisers often emphasise the fact that you should not put all your eggs in one basket and no matter how many times we hear it, we as rational functioning people, do the same thing we're told not to do and make mistakes of not diversifying our portfolio. To achieve your financial goals, one must consider their circumstances, risk appetite and personal financial goals and consider investing in different asset classes such as:

(1) Gold and/or Silver
(2) Real Estate
(3) Fixed Deposit
(4) Corporate Bonds
(5) Government Securities
(6) Mutual Funds
(7) Equity Shares
(8) Business Investments.

Theoretically, people understand how investments work but often make mistakes when it comes to understanding investment psychology and how it heavily influences our investment strategy.

Investment psychology of successful businessmen

In our conversations with numerous businessmen, a common mindset emerges regarding investment strategies. Many of them hold the viewpoint that investing in a product yielding a 12% return is redundant when their own businesses yield around 18% returns. Yet, it's crucial to acknowledge the distinction between active and passive income in this context. Within this line of thinking, two critical errors become apparent:

Firstly, the assertion of an 18% return from their businesses does hold merit, but a deeper analysis reveals that achieving this return required years of diligent effort and time investment. Comparing active and passive incomes in a straightforward manner overlooks the unique dynamics of each.

Secondly, the 18% return is often treated as a benchmark, disregarding the fact that attaining such levels necessitated a substantial period, often a decade or more, to mature. Not all businesses yield such substantial returns during their initial stages. The journey to establish a lucrative business involves intricate efforts and time, not only from the business owner but also from the various contributing factors. Conversely, the realm of investment operates differently, devoid of day-to-day engagement and the constant decision-making process inherent in running a business.

An important point to consider is that as one ages, their involvement in business decreases which may result in declining returns as they are not able to allocate as much time as they used to. Whereas, the same logic does not apply to investing.

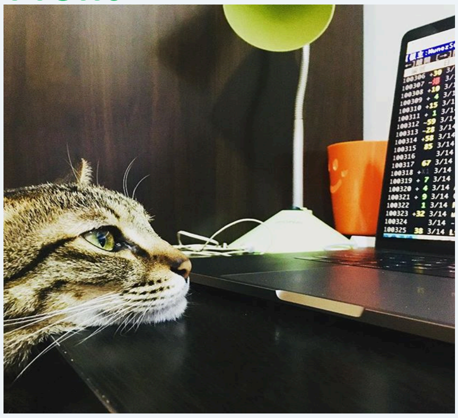
To make your investments successful, a mere understanding of the theory of how stock markets work is not enough. Investors need to go the extra mile to understand psychological theories in order to gain an advantage over others and maximize returns.

Few essential theories that we have observed that the majority of investors neglect are:

1) Be quick in loss booking

Loss

Profit



The majority of investors follow the concept of booking profit quicker than booking their losses. Investors are quick to release that their investments are making a profit and make a hasty decision of booking early profit due to the fear of missing out but often hold hope that a stock will eventually perform well and make the mistake of not taking the exit route at the right time.

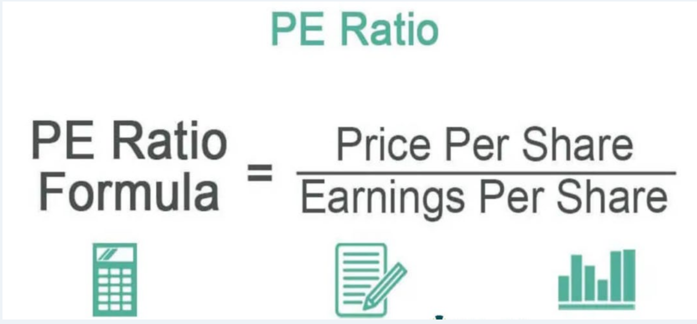
Investors often entangle themselves in the loop of booking limited profit and unlimited loss when they use this strategy.

2) Do not Buy/Sell at a 52-week high and 52-week low

The concept of selling at a 52-week high and buying at a 52-week low might seem intuitive, as it suggests taking advantage of apparent trends in stock prices. However, this approach can be misleading and often isn't the right strategy for successful investing for several reasons like market volatility, timing challenges, long-term value and psychological biases.

Similarly, selling at a 52-week high is also a wrong concept as it indicates that the company is doing well and the investor should hold onto that stock as it might be beneficial for them in the long run.

3) Do not panic buy when the PE is high



Panic buying when the Price-to-Earnings (PE) ratio is high is not an ideal strategy because it overlooks fundamental valuation principles. The PE ratio reflects a company's stock price relative to its earnings, indicating whether a stock is overvalued or undervalued. Buying during high PE ratios might lead to purchasing stocks at inflated prices driven by market exuberance, rather than true value.

This approach neglects the company's underlying financial health and growth prospects. Successful investing involves a balanced assessment of a company's fundamentals and market conditions, rather than succumbing to impulsive decisions based solely on PE ratios. However, it usually observed that well established companies have a higher PE ratio but still hold the probability of increase in share price.

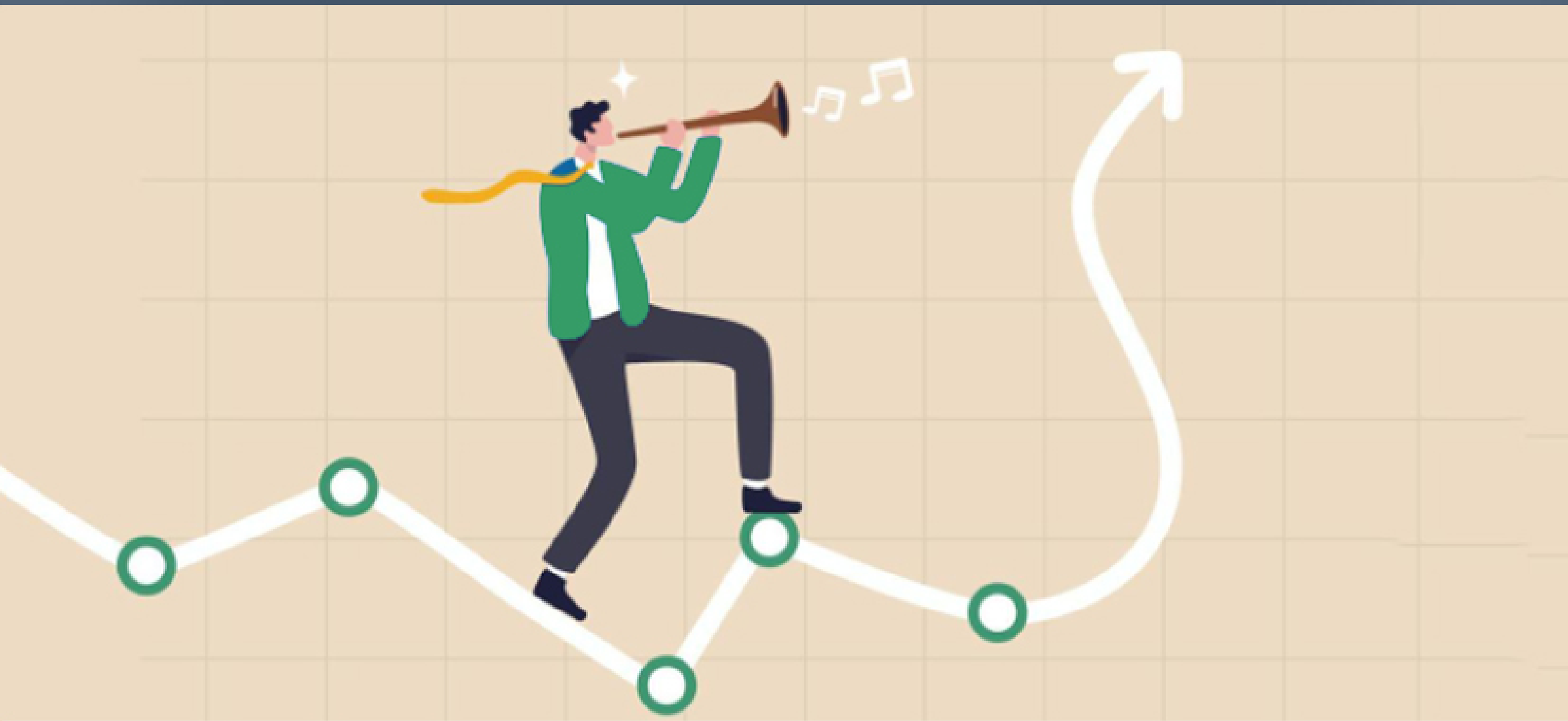
4) Buy the Best, Not the Cheap

Opting for the best stock rather than the cheapest one is a superior investment strategy. Quality stocks often signify strong financials, growth potential, and resilience. While cheaper stocks might seem appealing, they could be inexpensive for valid reasons. Prioritizing quality ensures a higher likelihood of long-term gains and risk mitigation. It's about prioritizing value over cost, fostering a secure and prosperous investment journey.

Investment psychology of individuals aged 50 to 60

People aged between 50 and 60 often find themselves in a unique phase where retirement isn't fully realized, often engaging in business activities. In this pursuit, they may unknowingly prioritize higher investment returns but overlook the substantial effort and dedication needed to achieve them. Moreover, their inclination toward risk aversion can hinder the pursuit of substantial returns with minimal risk.

As this age group approaches retirement, the allure of fixed income and pensions for stable income gains traction. While these options promise security later in life, it's essential to consider whether they offer the freedom to live life fully during the earlier years. This balance between a secure future and present flexibility demands careful investment consideration.



In the pursuit of happiness, wealth is sometimes associated, yet its connection varies for each individual. Happiness is subjective, rooted in personal perception. However, a universal factor is the joy of control over life – the freedom to act, interact, and extend experiences. While investing for tangible returns is vital, true value lies in having the liberty to shape life as desired. Without such freedom, even high-return investments might not align with a fulfilling life path.

People often misinterpret the concept of investing. We are offered this narrative of investing in order to gain higher returns, maximize our chances of higher profit and to not break the loop of consumerism but the main essence of investing is to buy freedom from this loop.

“The ability to do what you want, when you want, with who you want, for as long as you want, is priceless. It is the highest dividend money pays”
~ **Micheal Housel ‘Psychology of Money’**

Equity Market

Indices	01st July, 2023	31th July, 2023	High	Low
BSE S&P SENSEX	64,836.16	66,527.67	67,619.17	64,836.16
NIFTY 50	19,246.50	19,753.80	19,991.85	19,234.40

Mutual Fund

AUM Data of Mutual Fund for the Month of July 2023

(INR. In Lakh Crore)

Particulars	AUM As On 30-06-2023	Fresh Fund Mobilize During July – 23	Redemption During July – 23	AUM As On 31-07-2023
Total AUM of all mutual funds scheme	45.28	10.00	9.17	46.11
AUM of equity oriented (growth) schemes	18.16	0.38	0.30	18.24

Source: Association of Mutual Fund of India (AMFI)

Performances

SIP Contribution

(INR. In Crore)

Year	SIP Contribution	SIP AUM
JULY-2023	15,245	8,32,275

FII & DII Inflow/Outflow Position

FII's buying in the month of July-23 is **0.14 Lakh**.
DII's Selling in the month of July-23 is **-0.01 Lakh**.

Inflow/Outflow position in the month of July - 2023

FII /DII	Gross Purchase	Gross Sale	Net
FII	2.16Lakh	2.02 Lakh	0.14 Lakh
DII	1.69 Lakh	1.70Lakh	-0.01 Lakh