# Rendezvous With Money

## The Investment Guide For Women

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# Preface

The ability to gauge her responsibilities determines the strength of a woman!

From drawing rooms to boardrooms, the woman of today is leaving her mark in all fields traditionally considered as male bastions. She wants to be the first among equals. She is comfortable in her own skin and celebrates her womanhood. She is equally comfortable holding the ladle in the kitchen and brandishing a pen in the conference room. Today's woman has finally come of age!

However, when it comes to taking financial and investment choices, she is still shy of taking decisions. She prefers to leave the investment decisions relating to her hard earned money in the hands of others- be it a father, a brother, a husband or a financial consultant.

This investment guide is an endeavor towards empowering the woman of today; offering her with knowledge, helping her to make informed and confident decisions, and guiding her towards investments, which will favour her through life!

We are certain that you will find this guide useful. We encourage you to share your thoughts and feedback on this investment guide.

Warm regards
Team Equitymaster

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# Show me the money!

## May we have your attention please?

The days of women simply running a house or toiling over the stove are over. The woman of the 21st century is revered for her greatest strength – multitasking! She cooks, cleans, runs the house, looks after the kids, and that is just the tip of the domestic iceberg! Look at how far she has moved professionally; from running corporate platforms to heading political parties, one should never underestimate the strength of a woman. Yet, what is it that we do for ourselves, at the end of the day, we ask you? What have we done in quantitative measures that make us sit up and say, “The world is our oyster”? Nothing!

As working professionals we’ll let you in on what we do to brighten up the day, everyday – retail therapy! But is this the right track in the long term? No way! Being young and carefree has its disadvantages – i.e. no concept of affairs of long-term planning. And now that we are reaching what others of our generation call being an ‘adult’, we realize that our finances are in a state of disarray, similar to that of the American economy at present. The monthly cash flow register runs on a constant debit balance with higher deficit financing and lower income ratio.

## Money matters

However now comes the time to learn one of life’s most important lessons – investing money! Securing your today to provide you with a better tomorrow sounds like something out of an old insurance advert, but maybe those guys had it right all along. Do you remember sitting and hearing the old aunties marvel at your shopping sprees, with the constant reminder of “in our time it wasn’t that easy”, and brushing off their words as prattle, never thinking of saving, instead of spending!

But the times they are a-changing! There was a time women could not vote, but thanks to the suffragette movement, there are women voters and women in politics the world over. Similarly there was a time women did not ‘work’ in the professional arena – the man remained the breadwinner- but with the Second World War sending most of their men out to the battlefield, the task of ‘manual work’ fell onto the capable shoulders of women once again. Now several large companies are headed by women.

## The theory of money

With the global scenario being in a mess, we do tend to feel the adrenaline rush as we see signs of ‘Sale’ at our favorite department stores. However, are we not most often penny wise, but pound foolish? We may scrimp and bargain over the constantly fluctuating prices of onions and tomatoes, but do we know where, or rather how, to wisely invest our saved incomes for that inevitable rainy day?

Hereon, you shall be privy to a plethora of information, the kind you can sagely pass on to your children, the kind to get your neighbor jealous, or even the kind to help you save enough to buy that Bottega bag worth thousands you've had your eye on. Whatever be your desire, we will guide you on how to make something out of what you think is nothing. After all, every drop in the ocean counts!

# Investmentsutra

A female pop star once said, "With love, you should go ahead and take the risk of getting hurt... because, love is an amazing feeling." So are we really risk takers? Especially where our hard earned money is concerned? Not really, if research is to be believed.

As Gloria Steinem, a renowned feminist once famously remarked, women were not gamblers because, "women's total instinct for gambling is satisfied by marriage." So, while love takes care of our risk appetite, marriage takes care of the instinct for gambling.

The truth is we are conservative where money is concerned. The bigger truth is that we don't really have the money to spare for something which has no assured returns (shopping is an exception to this rule). And most importantly, we believe in the greater good of society! We believe in contributing to the liquidity in the market by essentially circulating the money within the economy. Therefore - WE SHOP!! Shopping is an assured way of keeping the money flow continuous. Wouldn't you agree?

While buying is our birth right, bargaining is our basic human right! We are gifted. We can multitask. We can shop and save at the same time. Most of us are sure that the concept of ‘Sale' was coined by some worldly wise woman like us.

So, we are good at handling money too. Yes! That's true. We will shop, we will spend, yet, we will also save. Hail the age of the Superwoman!

Investing?? Well, the request is still being processed. We save right? Isn't that enough?

## Investment strategies for women

Research has shown that women in general find it stressful and time consuming to invest. They have an inherent fear about investing, and hence a knee-jerk reaction to this fear is to avoid investing completely.

We would rather save the old fashioned way than invest. We would rather have gold than stocks. Or government bonds rather than stocks.

Yet, with the way the inflation is rising, the old fashioned way of savings would give old fashioned results. We will still be able to buy products but not our beloved brands; we will still be able to buy bags and shoes but definitely not a Jimmy Choo or a Fendi.

So, even if it's the stars that we want, (or diamonds with a dash of Jimmy Choo here and a Gucci there), then we better sit up and re-examine our inherent investment make-up. After all, a penny saved is a penny gained while a penny invested is an income gained.

## You say: "We are conservative."

### Our suggestion: Play it to your advantage.

The fact that we are conservative and cautious by nature is actually our strength. We don't get swayed by quick rich schemes and tend to evaluate an investment opportunity thoroughly before taking the plunge. So, the chances of us losing money in an investment are minuscule.

An interesting fact supports our claim: Catalyst, a research organization, studied Fortune 500 companies and found that companies with more women at the top delivered a 34% higher return than companies with fewer women. So all those out there who think that women are financially challenged, be warned!

## You say: "We lose track of our income and expenditure."

### Our suggestion: Keep them separate.

We have an intuitive approach towards seeking solutions - we spend! So whether sad, happy or plain bored, our hand instinctively reaches to our purse. Hence it is essential to keep separate the amount to be saved and spent.

We suggest having two different accounts. It helps. Otherwise, we tend to dip into the same pool and spend more. We also lose track of how much we spend and save on a daily, weekly or even monthly record.

## You say: "We stick to routine better."

### Our suggestion: Have a fixed ratio of investing to spending.

It is generally seen that women stick to routine when it comes to investing. We usually save and/or invest a fixed sum month after month. We don't really evaluate our investments at regular intervals.

As compared to men, fewer women end up changing the amounts invested during the previous year(s) or plan to change their asset allocation in near future. Irrespective of the market scenario, women always end up following a fixed investment routine.

It has been observed that women start saving late in life. (Sorry friends, but bags and shoes DO NOT classify as investment and savings!) Usually we decide to save/ invest when we think there is a responsibility upon us - it can be in form of children's education or helping parents etc. That's when we usually develop and stick to an investment routine - say investing in mutual funds every six months or buying Postal certificates every month or contributing to a chit fund regularly.

So have a 50-50 ratio. Save half of your income; spend half of it. Over time, you will have a sizeable sum invested, which will bring you favourable returns.

## You say: "We want Mr. Right."

### Our suggestion: Settle only for 'The One'.

Many women still prefer the help of advisers - be it our consultant, husband or a friend. We want our financial advisor to have all the qualities of a 'Mr. Right'. He should be smart, sensitive to our needs and irrespective of what the whole world (or in this case, the market) says, he should be able to take decisions on his own and prove them right. Most importantly, even though we may be independent women, he should be 'dependable' and make us feel secure. As Mills and Boons preaches in all their books '**Finding the Right One is Important!**' The one tuned in to the needs of women.

## You say: "A charming woman doesn't follow the crowd. She is herself."

### Our suggestion: Take decisions in tandem with your personality.

"A charming woman doesn't follow the crowd. She is herself", said Loretta Young. Uniformity has never worked for us. Some of us would prefer the old world charm of dependable, stable stocks with assured returns, in which case it's large cap companies / blue-chip stocks that we should think of. While, some of us, would settle for an adrenaline rush of a whirlwind affair with mid and small size stocks, hoping we strike gold with one of them.

Meanwhile, a blend of moderate risk and high promise would excite a few of us. Based on your capacity and the urge to take risks, allot some specific percentage of your income to blue-chips, fixed deposits or small and mid cap stocks. At the end of the day, we just have to be ourselves and the decisions to make will end up being a lot clearer.

# Can't buy me love!

### They say 'Diamonds are a girl's best friend'...or are they?

When you're young, with stars in your eyes and a song in your heart, you believe that love is what makes the world go round, and money don't mean much honey. But don't hate us for dissing that thought entirely. Aristotle, that old wise man we know, but fail to listen to, once said, "Youth is easily deceived because it is quick to hope." But we believe to the contrary, and support his view that "Good habits formed at youth make all the difference."

Hopes – the similar cord between both love and stocks. How you ask? When in love you hope the object of your attention reciprocates your sentiments, and similarly with stocks – you speculate and hope that your investments gain favour. But love is a tricky game and so are stocks. Now, we can't advise you much on your love life, but we can definitely help you gain a better understanding of the stock market so you can live happily with an equity portfolio that pleases you!

"Stop right there buddy!" is what your mind is telling you, isn't it? You believe that you're still young and time is on your side, you're just starting to enjoy the financial independence of your first salary slip, plus there are mom and dad to manage your investments, so why should you start thinking about stocks and equities when you have coffee dates to keep, movie trips planned and boys to flirt with, and department stores which are calling to you?

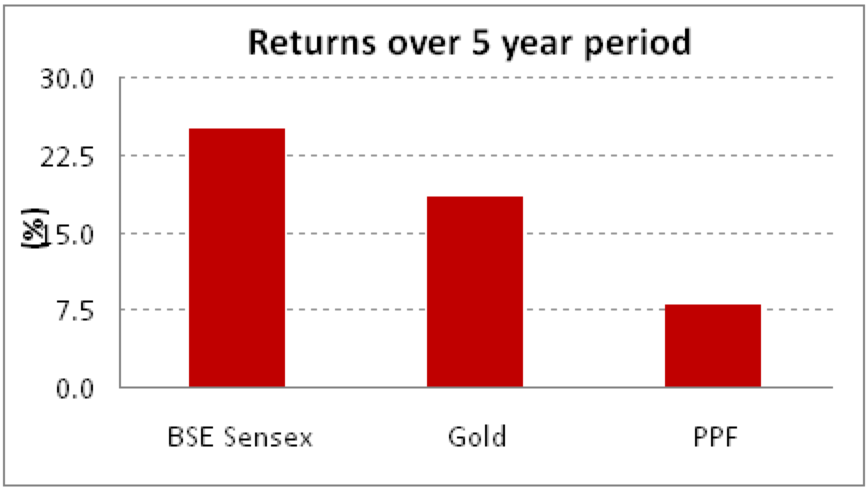
### Cash Culture

Well there is no time better than the present to invest in your future. Research has shown that there is a growing segment of women investors in the market, as more women are taking control of their financial lives. Now we've all seen Sex and the City, and seen Carrie Bradshaw and her gang of girls live life to the fullest, be it purchasing Manolo Blahniks as a wise investment or the sparkly solitaire to dazzle on your fingers; women love to buy and tend to rationalise their purchases as investments. Don't deny it – you do too!

Allow us to introduce a new word – 'Savings'! As kids we were all introduced to the little piggy bank. Now let's build that into a much larger piggy bank, which not only saves but provides us with goodies as a higher return on investment. It is a widely spread misconception that women and finance have a love-hate relationship. We love it when we get the money, but hate it when it comes to saving it, but let's prove people (ahem, men!) wrong on that account!

Why savings through equity portfolios, you ask? Simple - because when it rains, it pours! With inflation rates hitting an all-time high, storing money into banks will NOT provide you the higher rate of return you expect.

For instance, the chart below depicts returns generated by different classes of assets over a 5 year period. It is clearly visible that those who invested in stocks keeping a long-term perspective in mind have added more value to their wealth, as compared to the ones who parked money in banks or in any other asset class.




Source: Trend, gold.org, nsiindia.gov.in

## Stocking up on the opportunities

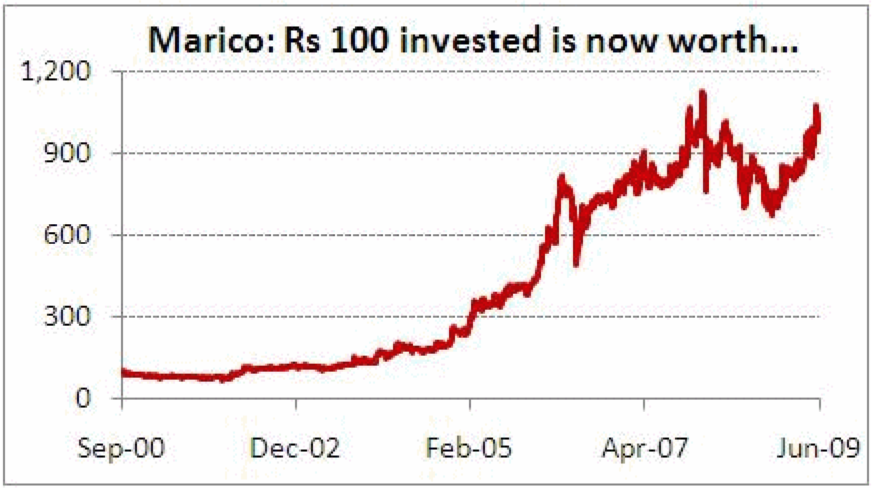
Here's how we can change this scenario. Imagine instead of splurging earnings from your first job, you instead invest it into building a stock portfolio. At least a part of your paycheque! Why you might ask? We all know that fashion trends change from season to season, but investing in stocks of a good company will bring you more favourable returns as it is a stable venture. Now how does that sound? Blah!!! Well this is where it gets interesting, as this is where we step in to help you make the right choices. Another reason to invest in equities is that it provides you with an opportunity to enter into new areas of business and enjoy the benefits on the returns from these investments, which include a higher average return.

Now let's address your question of 'why stocks'. Investments in stocks provide you with a higher rate of return as compared to when you opt for saving your money in a bank. Now this money can be allocated for the security of your future, especially in troubled times like these, where inflation can really knock the wind out of your financial planning. So if you're thinking you will only benefit from this once you have grandkids - then you're wrong! Such an investment will help you garner beneficial returns from a long-term perspective...so if you're planning to save for your further studies, marriage or even a trip around the world, this will help you in that very endeavour. Is that a smile on your face, we see...?

Great! Then let us give you a small example of how this will help. Has it ever happened that you've walked into a store to buy a product and find that the price has increased, and felt dismayed that you didn't buy it when it was cheaper in price? Yup, we've all been there! Similarly with stocks. We will guide you on purchasing the stocks which will be most profitable for you in the long run.

## So simple!

Let's take the case of Parachute, a product of Marico. We all purchase Parachute to revitalise our hair. Instead let's review the stock of the company behind the brand – Marico – in the graph below, and see how our pockets can enjoy the benefits of their strong performance year after year.




Source: Trend

The graph is just an example to indicate to you how investing in stocks of good companies can bring a favourable return to your pocket as well, if you invest at the right price! Hence we highlight to you the importance of savings and how when invested wisely, your savings can benefit you greatly!

# A wife's worth

### Early to bed, early to rise – makes you healthy, wealthy and monetarily wise!

Michelle Obama, the US First Lady has taken on the mantle of style and elegance from the lady who brought panache into politics for women – Jackie Kennedy. A woman of substance, devoted to her children, carrying forth her duties for the most important man in American history at that time and being the perfect wife to a T, was no cakewalk as imagined, but Jackie Kennedy made it look immensely simple for all. After several years had passed after the tragic demise of JFK, Jackie moved onto to marry Aristotle Onassis, a Greek shipping magnate who famously remarked, "If women didn't exist, all the money in the world would have no meaning."

### Who moved the money, honey?

Women are truly the backbone of each household and in a larger sense the economy worldwide. Men make the money, women spend the same! But jokes aside, the budget of each household is decided by the woman, and one of the key allocations of money is for her children's future. Once a child is born, the first call of duty for each woman remains her maternal instinct to provide generously for her offspring.

However a simple savings account is not enough, especially keeping in mind the ever rising inflation. Suppose if you're planning to save for your child's marriage – keeping in mind today's cost, you decide to allocate X amount. However due to inflation, this amount will be insufficient after 20 years and you will require X+Y amount. Hence not only must you save, but you must correctly target the appropriate amount necessary for savings.

Now you might think that making fixed investments like putting money into a PPF (public provident fund) account would do the job for you and help you increase your money. After all inflation is now close to zero and in that scenario a return of 8% per annum seems very attractive, right? But let that not fool you. The actual inflation that you should be worried about is the CPI (Consumer Price Index, which tracks the rise in price of things we consume, like food) and that has stubbornly stayed at around 10%, which means that an 8% return on PPF has no meaning.

Equities in that sense are a better asset class to be in, since the returns generated over a 3 to 5 year period from good stocks are on an average 4-5% higher than what you earn on fixed investments. Okay, a margin of 4-5% at first may not sound very enticing but if you consider your investments over a 20-year horizon, then your money in equities will actually be more than two times the amount that you would have earned on your fixed investments.

## Ready, steady, GO!

One must be prepared for all eventualities. Therefore the house you're planning to buy, or storing cash funds for your child's further education remains of great importance to you, you must ensure that not only do you save the desired amount of money, but you also profit upon that.

As explained previously, the amount of money you put away into a savings bank account will not yield you high returns, whereas investing into a few good companies by purchasing their stocks will yield you a more favourable income and also benefits your savings plan greatly. Now what do you think of that?

However, why would you want to invest in stock markets as a savings option, you ask? When one prepares to invest in the stock markets most often he/she tends not to look at the time frame from a long-term perspective which yields a higher return on average, and thinks that short term approaches will provide a higher success rate.

Let us give you an example to help you understand the 'How' of investing in the stock market.

Whilst preparing for your child's higher education, you browse through several courses, discuss with your child's teachers as to the area your child shows a greater interest, visit campuses and speak to the faculty there, and do several other similar exercises before settling for a course and college in the interest of your child.

Similarly you must perform the same exercise before purchasing stocks of a particular company! You must discuss the strengths of the management; review its competitive force, its capability to counter market competition as well as the company's overall performance, and then buy for a long term investment! By making a sound and informed decision regarding your child's education, you hope that you are providing him/her with a stronger and better platform to learn, and secure their future through such means. Similarly by reviewing all the data and reports before you purchase stocks for a long term investment, you are ensuring a sucessful and higher return on investment, which will provide you with higher savings, plus an added margin for profits, which would not have been noticeable, had you only invested the money into a savings account!

Simple? Yes, but who has the time between running a house, looking after kids, etc., to review company reports before investing in stock options? Well, I assure you it can be as easy as teaching your kids ABC!

Consistency is the key here. Devote a few minutes everyday, the same amount of time that you would take to say apply a moisturizer before sleeping. Before long, you will discover that the company report stops looking like an endless mass of numbers. Instead, it will look like a short story by your favourite author complete with plots and sub plots talking of profits, loss, mergers, acquisitions and a lot more!

# Trading places

### In a family, a man usually manages the money and savings, but we ask – why not the woman?

A cool wind blowing gently through the palm trees, caressing your hair as you lie on a hammock in the summer sunshine, under the azure sky and watch your grandkids play merrily in the ocean ahead. A scene of pure contentment isn't it? Well that's what most of us imagine our lives to resemble post retirement. Retirement – that phase of our lives when all we say is "goodbye tension, hello pension."

However for a woman, her job never stops. As a woman once remarked famously, "A retired husband is often a wife's full-time job." So how exactly would a wife retire you might ask? By planning her savings and funds in advance!

## Financial Planning: It takes two to tango?

It has often been noted that though a couple consists of two individuals, when it comes to dealing with the finances, often the woman steps aside and lets the man maintain control. About a century ago, this system of financial planning was in-keeping with the values of the time. But now, especially with women taking a lead in the office arena, they should step up and bat whenever there is a money googly thrown at them. And this applies to homemakers too!

Money for your own future is best controlled in your own hands. We're not saying decline the help of your father/brother/husband or even son when it comes to money matters. What we are rather saying is that 'you' start taking an active interest in planning your savings and automatically you will find yourself inclined towards saving for yourself.

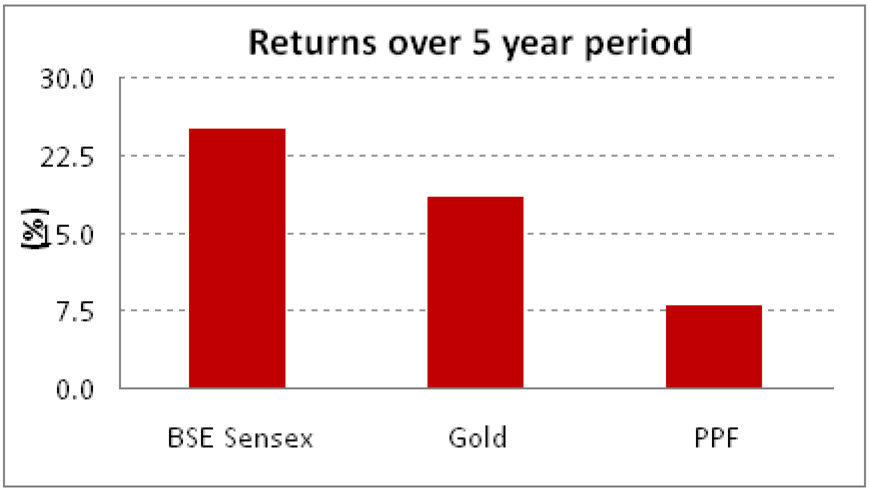
So now to get back to planning for that holiday...the world cruise, or even that beautiful little villa home where you can potter around in the garden and soak in the sun. You want it? Let us tell you a path that will make it easy for you to get it. Savings are the essential component of all your future plans, yet we suggest a way to increase your savings - by investing in equities (stocks), and equity funds, which over a long term investment period will reward you with higher inflation-adjusted returns.

So you may not only be able to afford that luxury villa, but can encash your double bonanza by even going on a holiday in style! Who said life ends once you retire? As far as we're concerned, here is where you reap the rewards of your investments and truly start to enjoy!

## Let's start at the very beginning...

Investing your hard earned money into stocks may not seem like the safest option for you, yet we will show you why 'it is' and how to make good returns on your investments. First we must determine your savings in relation to your age factor. The earlier you start saving and investing, the higher will be your return, especially if you invest in stocks and equity funds from a long term perspective.

For instance, have a look at the chart below to understand how your savings add more value to your wealth portfolio when invested in stocks as opposed to savings in banks or even gold, which do not provide you with a high return on investment, even over a longer time period.




Source: Trend, gold.org, nsiindia.gov.in

See, it's that profitable! So, build your own enviable portfolio of quality stocks, which will keep you smiling even as you retire.

# Asset Allocation demystified

We are all familiar with the proverb "Do not put all your eggs in one basket", and even know about the good old Baa Baa Black sheep who was wise enough to distribute its wool (or rather, its assets) and invest it with three different entities (his master, his dame and the little boy who lived down the lane).

In reality, all of us are familiar with asset management, but, we may not know the intricacies of it.

## In this article, we aim to demystify asset allocation and present it exactly the way it is - a tool towards building profitable investments.

Sometimes, things are just given complicated names and then, they seem like incomprehensible rocket science to us.

For example, do you know what a mandible or a patella is? Before you think we are talking Greek and Latin, a mandible is nothing but the medical term for the jaw bone, while the patella means a kneecap. Simple enough to follow in layman's terms is it not?

Wouldn't all of us be happier if we were just told that asset allocation is basically the way you distribute your savings amongst various segments so that you end up beating inflation and improving your standard of living?

Instead we are told - asset allocation is the optimum management of your resources for gaining maximum return on your investment. (See, the rocket science language at work again!)

## So what exactly is asset allocation?

In asset allocation, we choose how to divide our savings (assets) and invest them in gold, equities (that is stocks and shares), property and other fixed investment options like fixed deposits and government saving schemes.

Hence, instead of putting all our eggs in one basket, we use different baskets promising us different amount of returns and different risk profile. Say for example, stocks and fixed deposits. While stocks usually have the potential to give better returns than fixed deposits, they also carry the greater risk of a permanent loss of capital.

Thus, through asset allocation, we reduce the risk of a permanent loss of capital and at the same time, increase the odds of stable risk-free returns.

## Only you know where your shoe pinches you

You may think your best friend has a solid asset management strategy, but that does not necessarily mean the same strategy will work for you.

We are unique. So our investment profile (showing where our assets are invested) should also be unique. Even if your best friend is your soul sister, her shoe can still pinch you, although it looks great on you. Only you are the best judge of what you expect from your investments. So invest accordingly.

Depending on your age and you willingness to take risks, use a mix of equities, gold, fixed deposits and property to match your investment profile.

Ask yourself these questions before you finalize how to invest your precious savings: Do you like to play safe?

Is your family dependent on your income?

If the answer to both these questions is a resounding yes, then you are a ‘low-risk’ investor. If the answer is no, then, you are a ‘high-risk’ investor.

Your age also has a big role to play in your risk taking capacity

## "Remember when you were young, you shone like the sun".

When Pink Floyd sang the song ‘Shine on you crazy diamond’, the band could have been talking about all of us - our youth, the urge to take risks, the urge to experiment.

Who can forget the impulsive purple highlights in our hair or the instances when we chop our long tresses for a retro bob. When we are young, we are usually willing to take more risks, find ourselves, stand apart from the crowd, we are ready to experiment.

In the language of asset allocation, this means, we are willing to take more risks in our early twenties as long we feel the end result is worth all the trouble. The risks should justify the promised returns.

Hence, invest in equities if you are a high-risk investor with no financial family obligations. Allocate a higher proportion of your income /savings (say around 60%) to equities. Since you are taking a high risk approach, temper it by investing the rest of the money in fixed deposits and gold - the safer options with steady returns.

## "I've been living with a shadow over head, I've been sleeping with a cloud above my bed"

Does risk taking make you feel like Drew Barrymore from the movie Music and Lyrics, living with constant tension over your head? If so, then you are a low-risk investor, although your age may permit you to take risks.

In such a scenario, invest a large proportion of your money (say 45%) in fixed deposits, PPF, national savings certificates and other fixed investment options, and devote a smaller proportion to equities and property (say around 40%), while investing the rest (10%) in gold.

## "Sunshine on my shoulders makes me happy"

This is the John Denver song that we want to hum by the time we are in our mid- thirties. We are no longer the bohemian chicks in their trendy twenties, who want our hair to be synonymous with the word 'psychedelic'.

During our mid-thirties, we look at settling down, providing for the kids' future. We start looking at the "chic mommy haircut"- low on maintenance, high on value.

With the passage of time, as our style sense evolves, so do our expectations from our investments. We now look for investments that match our lifestyle and aspirations. With children and family in the picture we want stable returns.

At such a stage, it is ideal to invest in blue-chip stocks and gold (around 60% of our annual income), which promise stable if not mind-boggling returns. Holding stocks of blue-chip companies reduces the risk associated with equities.

You can also invest a smaller percentage, say around 40% of your income, in property and fixed income schemes.

## The feel good fifties

As we cross the threshold of 30s and 40s and step into the feel good fifties, we are more relaxed. We don't want to take risks anymore. By then, we have seen enough, experimented enough and have seen enough highs and lows to know what's best for us.

That is the actual time to enjoy the returns of your investment plans. Go on a world tour with our hard earned money. Visit the museums of Paris, see the art galleries and gape in wonder.

That is the time to stop and smell the flowers. Look back and smile at the way time has passed. Reminisce about the journey we took. Look fondly at the way we have grown, the way our smart investing helped us and finally, take a sheet of paper and re-evaluate our asset allocation, to see that it matches our new dreams and newer aspirations.

# SIPs - made simple!

Ok, so we've been telling you time and again to save money and invest. Savings are important and investments can provide you with profits in the long term.

We have seen that, now let's get down to business. How should YOU go about investing to keep your financial future secure?

Very often we find ourselves as saying – "I don't have time to invest," or "I can't afford to put away a lot at this point." These are all excuses! We bring to you the concept of SIP – that is a Systematic Investment Plan – which allows you to periodically invest small fixed amounts, which grow at a compounded rate into a substantial amount at the end of your long term plan. An SIP is a service offered by mutual funds and provides you, the investor, with an option of committing a small quantity of money regularly towards investing as opposed to a lump sum investment. Simple? Well, we're just getting started!

**Why SIP is good**

Now that we are about to lay the foundation for regular investing through the means of SIPs, let's review why this is a good option to start with.

A systematic investment option such as the SIP enables you to build wealth over a long term horizon. Generally, investors look to time the market. This practice is futile and more often than not, investors buy when prices are rising and sell when the prices are depressed. This is in stark contrast to the sound principle of equity investing – Buy when the price is low, sell when it is high. So how does SIP help in this regard? Since the amount invested each month is fixed, what changes is the net asset value (NAV). So, when the prices are down, the NAV dips which means that you get allotted more units of the fund. Similarly, when prices rise, you get allotted more units, plus the returns on your earlier units, acquired at lost cost¸ rise. This does away with the risky business of timing the markets and ensures that you are investing in a disciplined manner.

So you save and invest in an SIP, but do you know why and how an SIP is good for you, especially as a woman investor? First let's tell you why an SIP works in your favour. Most women save and spend in equal amounts (at least we hope they do!), though there are times when you find your hand reaching more towards your savings pocket to compensate for the shortfall in the spending account. As we mentioned in 'Investmentsutra', a sure shot way to ensure the funds stay separate is to keep them in two different accounts. And then introduce the concept of SIP to your savings account! A systematic investment plan will enable you to maintain your savings in a disciplined manner and will also help you make money over the long term.

## How SIP works

A systematic investment plan is not much different than the savings option of a recurring deposit account with a post office or a bank, except that these small monthly amounts are invested into a mutual fund. The SIP option is available with all types of funds like equity, income or gilt and *works in your favour* as the NAV (Net Asset Value) is averaged out as opposed to a one time buy. As you will be investing at regular intervals, the NAV may be higher or lower depending on market fluctuations.

| | Person A | | | Person B | |
|---|---|---|---|---|---|
| Month | NAV* | Amount | Units | Amount | Units |
| Jan-09 | 8.512 | 1,000 | 117.4812 | 12,000 | 1,409.774 |
| Feb-09 | 9.591 | 1,000 | 104.2644 | | |
| Mar-09 | 8.451 | 1,000 | 118.3292 | | |
| Apr-09 | 8.321 | 1,000 | 120.1779 | | |
| May-09 | 8.269 | 1,000 | 120.9336 | | |
| Jun-09 | 9.421 | 1,000 | 106.1458 | | |
| Jul-09 | 9.478 | 1,000 | 105.5075 | | |
| Aug-09 | 7.598 | 1,000 | 131.6136 | | |
| Sep-09 | 8.471 | 1,000 | 118.0498 | | |
| Oct-09 | 7.987 | 1,000 | 125.2035 | | |
| Nov-09 | 6.958 | 1,000 | 143.7195 | | |
| Dec-09 | 7.524 | 1,000 | 132.908 | | |
| Total | | | 1,444.334 | | 1,409.774 |

* These NAVs are assumed

The table above clearly shows how your cost of purchasing the units of any fund comes down and how a sense of discipline is instilled while investing even when there are swings in the NAV due to volatility in the market.

## SIP leads the way

A key lesson we can share with you here, to give you a complete overview as to why SIPs are beneficial, is the lesson of 'The Hare and the Tortoise'. We know how the smart Mr. Hare tried to mock the little Mr. Tortoise and challenged him to a race assuming he was bound to win thanks to his inherent speed; but once he sat back and rested, the little Tortoise soon overtook the overconfident hare and won the race.

At times people opt for the easy way out: follow the crowd, do what the majority is doing. Invest all your money in the most promising stock. Very few pause to think, "What if this stock crashes tomorrow? Can my current financial state handle it". We suggest, be pragmatic like Mr.Tortoise and not over confident like Mr.Hare.

So dear investors, what we're saying is let's not get carried away by putting all our eggs into one basket, hoping that the goose will lay a golden egg. Instead, it's wiser to space out our investing into specific time frames which will benefit us in the longer run i.e. the systematic investment plan! 'Coz remember, slow and steady wins the race!

# 7 tips for investing in stocks

Investment experts always advise investors to stay away from 'junk' stocks. Warren Buffet once famously said “The only time to buy these (junk stocks) is on a day with no ‘Y’ in it.”

Stocks can be as tricky a business for novice investors as they are for seasoned players. However, as Warren Buffet has always propagated, 'Right stocks at the right price' is the way to laugh your way to the bank. This means, avoiding all those ‘junk’ stocks and setting your sights only on the 'right ones'.

So how do we really separate the wheat from the chaff? In an age where Satyam and Infosys both ruled the roost at one point of time, how do we know which ones are the black sheep and which ones are not?

Let’s understand the fundamentals of choosing a stock from a long-term perspective:

## Sound management

A sound management is like a captain of a ship. The onus of charting out the right direction in still waters and steering the company safely in troubled times lies on the management.

We would even go to the extent of saying that the way in which a management behaves, determines to a great extent, the long term success of the business. You don’t want to be an investor in a company where the management takes money from the shareholders to fill its own pockets.

A case in point here would be Satyam. It promised its investors the moon. However, they soon had to settle for sleepless nights as the ugly truth of Satyam reared its head.

## Investor mentality

Traders routinely buy and sell the same stocks within a time frame of a few hours. 'Investors', on the other hand, put money in stocks and hold on for a longer period of time, generally at least 2 to 3 years.

Develop an investor mentality. Adopt a long-term investment strategy. While looking at the quarterly results of the company, don’t lose sight of the bigger picture. Invest for a longer duration which promises more returns and is not affected by daily market fluctuations.

Research shows that the shorter the duration of investment, the more are the chances of losing money. While, with long term investing, the chances of losing money are lesser.

Remember, the longer the investment period, the greater are the chances of making money.

## Practical approach

Emotions need to be kept aside while dealing with stocks. Don't get emotionally attached to your investments. Your aim is to get maximum profits out of your stocks. It's immaterial if this is achieved through selling them, buying them or holding them.

Just because you are emotionally attached to the stock or just because the little voice inside your heart says, "Give it some time and things will work out just fine", does not mean that you have to hold on to a stock when it is destined to hit its nadir.

## Consistently Proven track record

At the end of the day, it's all about numbers. Numbers can tell a story - you should just have an ear attuned to understanding their language. It makes sense to thoroughly investigate the company and its track record.

Consistency is the key. If the company is good, it will have a consistent performance. Its income statement will show consistent profits. Its annual reports will talk about the consistent dividends doled out. Ideally, the company should have a dividend history over the past 5 years and a dividend payout comparable with its peers.

In the case of 'growth stocks', the game changes a little. The company may not distribute its' profits as dividends; rather, it would invest the profits back into the venture for future growth. However, all said and done, it should not invest so much that it has to resort to frequent financing from outside. In other words, it should not undertake frequent dilution of equity or raise so much debt that its debt to equity ratio spirals out of control.

Looking at prior records helps one understand the company's capabilities. It gives an idea, shows a direction, and helps to understand the company's vision and the path ahead.

## Intensive research

The golden rule to investing is considering the future growth prospects of the company you are investing in. During the dot-com boom, many investors displayed a herd mentality, investing in companies without any research. The result was the dot-com bust that followed.

It is important to not only know the company like the back of your hand but also be aware of the external factors influencing the growth of the stock. The overall state of the economy, the factors influencing political and social environment should also be considered while investing.

Sector growth, the demand supply trend and the competition in the sector also need attention before you decide to invest in a particular stock.

## Extensive Homework

If you are a serious investor, you cannot go by intuition alone. You will need to do a lot of homework before zeroing on a particular stock. This should not be difficult. We may be considered impulsive buyers, but we do have our own ways of background research before we make the ultimate buying decision.

Homework before investing would include reading up about the company you are about to invest in. Reading its annual reports, studying the balance sheet, analyzing its profits, assets and liabilities; reading interviews of the top management, keeping yourself updated about the latest economic policies. In short, being the sponge and soaking every piece of news and information related to your investment.

## Serious follow up

Keep a constant track of your investments. Regardless of the market condition, whether it is a bear market or a bull market, it is your money that is at the stake. Your hard earned money! You owe it to yourself to ensure that the savings that you have invested are showing a promise and growing.

It’s the last mile that makes the difference in the race. It’s not just about the right formula but about the grit to see it through. The grit to emerge as a winner.

Don’t lose steam once you invest. Serious follow up is what will differentiate you from other investors. It will be your secret weapon, your protective armour, the secret charm that will help you make the best of your investments.