An investor education initiative

Edelweiss MUTUAL FUND

How to thrive in uncertainty

Visualise this.

You embark on a 3,000-mile trek across the U.S., from California to Maine. Every single day, you march 20 miles. Be it the blistering heat of the desert, chilly winds, snow or rain, you trudge on.

20 miles a day! Nothing more. Nothing less.

On some days, you don't want to get out of your tent. On days of absolute perfect weather, you feel charged up to go much further. But you regimentally stick to the pace of 20 miles per day.

Your friend starts out on the exact same journey as you, on the same day, from the same place, at the same time. Brimming with enthusiasm, he logs 40 miles the first day and has left you far behind. Exhausted, he slows his pace the next day. In the desert heat, he takes it easy and plans to make it up when the conditions improve. Just before the Colorado high mountains, he gets a spate of great weather and he goes all out, logging 40-to 50-mile days to make up lost ground. But then he hits a huge winter storm when utterly exhausted. It nearly kills him and he hunkers down in his tent, waiting for spring. When spring finally comes, he emerges, weakened, and stumbles off toward Maine. By the time he enters Kansas City, you, with your relentless 20-mile march, have already reached the tip of Maine. You win, by a huge margin.

The 20 Mile March is a concept developed in the book Great by Choice by Jim Collins, from where the above example has been taken. I will continue to draw upon extracts from the book to explain my point.

Combat UNCERTAINTY in your investing journey by developing CONSISTENCY.

No investor can predict the future. No investor can predict the markets. If you think you are an exception, would you have been able to predict any of these events that impacted the stock market over the past two decades?

The India-Pakistan stand-off that brought both sides close to war (2001), 9/11 terrorist attacks on the Twin Towers in New York (2001), war in Iraq (2003), Global Financial Crisis (2008), European debt debacle (2010), uncertainty over tapering by the U.S. Federal Reserve that cause the rupee to tumble (2013), Greece on the brink of expulsion from the euro (2015), China's stock market crash (2015), commodities crash (2015), oil prices plunged (2014-2016), the short and extremely brutal bear market (2020), global pandemic induced lockdown (2020), the longest bull run in U.S. markets that began in 2009, and a phenomenal rally in the Indian stock market.

Financial markets are out of your control. Earthquakes are out of your control. Pandemics are out of your control. Floods are out of your control. Droughts are out of your control. Technological change is out of your control. Most everything is ultimately out of your control.

Risk: 3 ways to put the odds in your favour

How does an investor thrive in chaos and uncertainty?

Having a clear 20 Mile March focuses the mind and keeps you on track. It gives you a tangible point of focus that keeps you moving forward, despite confusion, uncertainty, and even chaos.

This fanatic discipline is essentially consistency of action.

The way you implement that is through the financial equivalent of the 20-mile march. Set an amount to invest every single month. Be absolutely committed to it in bad times and good times. It is not about good intentions; it is about hitting that target consistently.

In other words, opt for SIPs – Systematic Investing Plans. Pick your equity funds. Automate systematic payments on specified days from your bank account. And refuse to touch it. Let automation and consistency work its magic. .

If you're doing a 20-mile march in an uncertain, chaotic world, what does that give you? You keep on track towards your goal of wealth creation, and in that way, you are on track to achieve your financial goals. You don't let the market upheavals stress you. It gives you peace and confidence that you can achieve your targeted amounts. It helps you exert control in a world that seems out of control. By focusing on this one thing, you are relentlessly marching along.

A step-by-step guide to achieve your goals in 2022

Slow is smooth. Smooth is fast.

There are no quick ways to get wealthy.

The path is through discipline and consistency. If you fail to do so, you will find it virtually impossible to navigate through the noise and will fail to achieve any of your financial goals.

The saying "Slow is smooth, Smooth is fast" is adhered to by sailors. It incorporates the idea that if they were going too fast, then the ship would be prone to get all wobbly on them and risk capsizing or getting knocked over by waves. (The saying is more commonly used by special operators in the military).

Save like a pessimist, Invest like an optimist

"You make most of your money in a bear market, you just don't realize it at the time." - Shelby Cullom Davis

Every single month, a fixed amount is debited from your bank account and credited to the fund of your choice. The amount of money is fixed, but the units vary. You get more units when the market is down and fewer units when the market climbs.

A drop in the Net Asset Value (NAV), which is the price you pay for each unit of a fund, gets you units for the same amount invested.

- NAV = Rs 10 (Rs 100 will get 10 units)
- NAV = Rs 20 (Rs 100 will get 5 units)
- NAV = Rs 5 (Rs 100 will get 20 units)

This is why you need to continue your SIPs even during painful bear markets. Because that is when you accumulate many more units and it eventually balances out in your favour. This is why you need to think in terms of years when you opt for an SIP.

An SIP is effortless (being automated).

It is doable (you can do so with tiny amounts).

You are not hostage to market timing.

And it helps you achieve: Order amidst disorder. Discipline amidst chaos. Consistency amidst uncertainty.

Content Source: Morningstar