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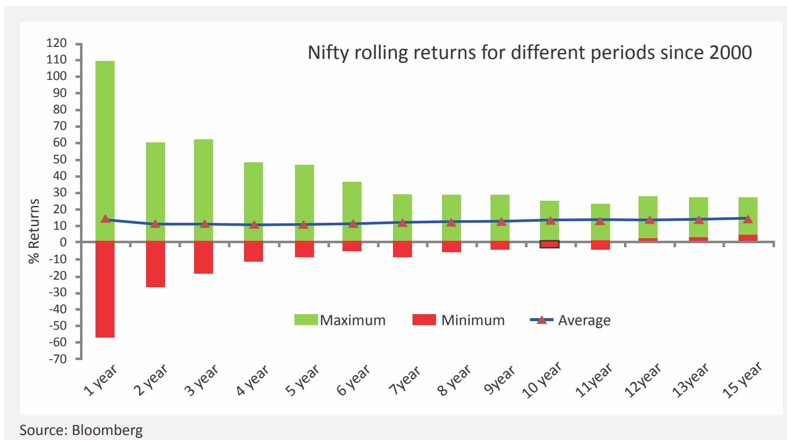
Dear Investors and Advisors,

There is a famous Chinese curse that says "May we live in interesting times", and as we look at the month gone by, this seems to be an understatement! Interestingly, for history watchers, September has frequently been a volatile month for the market. The September of 2001 marked the fall of the Twin Towers in the US, and the volatility in stock markets that happened thereafter. The September of 2008 of course marked the fall of Lehman Brothers, and the bottom of the Global Financial Crisis. And September 2018's events, we are all too familiar with.

I have been asked many questions by investors and advisors on the last month, but perhaps what has taken most people by surprise is the sharp turn in both markets and sentiment, and the sharp movements every day in markets, especially compared to 2017. The truth is volatility, of the kind we have seen in 2018, is a market reality. I started my career at Microsoft, and one of the things we were taught to distinguish between software was the difference between a feature and a bug. A feature is planned, part and parcel, in the design of a product. A bug is a mistake, an error, an oversight that needs fixing. In investing, volatility is a feature, not a bug.

What does this feature entail – it means large price movements in indices, it means sharp 30-40% corrections in a matter of a few weeks in sectors or stocks, it means that pieces of news can bring, even businesses that are fundamentally sound, down by 20% in a day. None of these point to equity markets being wrong as a product class. The good feature about volatility that is less talked about however, is that in the long term it goes away. If you take a look at the adjoining graph, which shows the maximum positive and negative returns in the markets in different time horizons, you will see that markets are very volatile on a 1 year basis, less on a 3 year basis, even less on a 5 year basis, and actually, quite calm over a 10 year basis. The longer term your lens is, the calmer life becomes.



Source: Bloomberg

What typically scares investors about volatile markets is a feeling that we lack control. There is a flurry of news, media, noise and it triggers a very human desire to act. There are three tips to keep in mind during volatile market conditions, that my experience of 2008 has taught me. The first is **do not use news to make decisions**. We live days of media blitzkrieg, where WhatsApp can determine how a day moves, and while news is important for the purpose of information, it should not become a tool for making decisions. Why? Because by the time news comes out, for one, the event has already occurred, and it is honestly too late to make a decision that will matter to your portfolio. More important, the beauty of mutual fund portfolios, is that they are largely diversified, and they are diversified because single stock events do happen, especially in the mid and small cap space.

The second thing to remember is that **you cannot time markets effectively.** Market timing is a very difficult job, and much as we would like to believe that we can catch the bottom or top, it is very hard. The timing of recoveries is also very different. Small caps were down 25% in 5-6 weeks in 2005, but recovered swiftly within 3 months. In 2008 however, the small cap carnage of 60% took many more years to recover. And finally it is important that you **don't follow the herd.** People make money in capital markets because they are fundamentally not efficient, and the Warren Buffet quote, "Be fearful when others are greedy, and greedy when others are fearful" has been repeated time and again. The herd will always focus on news, macros, events of the last day and year, factors that are beyond your control. Focus on yourself and your own goals, for which you are investing. You will realize those goals, for one, are not 1 year and 2 year goals, they are 5 year and 10 year goals, and that will help lengthen the lens from which you look at markets.

In all my travel and interactions with clients and advisors, I have realized the best tool to control volatility is in our hands and that is sensible asset allocation. Clients and advisors who have used sensible asset allocation techniques that match their goals and risk profiles, have not had any reason to panic during this volatile period. If you have not got a solid asset allocation in place, do so, and if you have it in place, don't deviate significantly from it. The mutual fund industry also has terrific natural asset allocation tools that can help – dynamic asset allocation or balanced advantage funds that shift between equity and debt automatically depending on markets, and SIPs, which average out the volatility. Use these well, and volatility will actually be your friend.

Those of us who have been investing for years, know much of this, and we also know that markets fall, they rise and in the long term they deliver. For newer investors, who feel a little pinch, be glad that you have experienced volatility – a feature of investing – early in your journey, on the training ground. It will make you a sharper, stronger, and more informed investor.

Happy investing!