Investment into equity-the big dilemma?

Money Matters

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INVESTMENT decisions are not easy, and more so when it is the question of 'equity'. Every investor wants better returns but at the same time some people can't take the risk of investing into equity and this is what poses the biggest dilemma.

Is it so hard for a common man to decide whether to invest or not into equities? Why some people still feel equities as a dreaded zone? Lots of questions and thus we have to find credible answers to this dilemma.

It has always been a debatable point whether one should invest into equities or not. Some say that investment in equities is like a gamble while another school of thought believes that in order to earn comparatively better returns one must surely invest into equities. There are people who have made their fortunes just by investing into equities while at the same time there are many instances where people have equally burnt their fingers by losing millions and even billions because they decided to invest into equities.

Investing in stocks and shares of companies is widely regarded as one of the best ways to create growth within any portfolio. However, investment return from equities is dependent on a number of factors, such as economic environment, government policy, performance of the company, and investor's sentiment - all of which can affect the stock market positively as well as negatively.

Stocks are one of the many possible ways to invest your hard-earned money. Why choose stocks instead of other options, such as bonds, fixed deposit, real estate, precious metals etc.? Quite simply, the reason that savvy investors invest in stocks is that equities provide one of the highest potential returns. And over the long term, no other type of investment tends to perform better than equities.

On the downside, stocks tend to be the most volatile investments. This means that the value of stocks can drop in the short term. Sometimes stock prices may even fall for a protracted period. Bad luck or bad timing can easily sink your returns, but you can minimize this by taking a long-term investment approach. There's also no guarantee, that you will actually realize any sort of positive returns when it comes to equities. If you have the misfortune of consistently picking stocks that decline in value, you can lose money, even over the long term!

So are you a bit confused with regard to your perception of investing into equities? Not to worry as there is always a logical reason to invest into equities, because investing in stocks and shares of global companies is one of the ways to achieve long-term growth within an investment portfolio. Shares of some companies also offer the potential to receive income in the form of dividend payments.

Although, returns from equities depend on a number of factors, as mentioned above, however, over the long term, equity markets have endured fluctuating conditions to outperform other investment avenues like real estate, bonds and bank deposits etc. Moreover, when used as part of a well-diversified portfolio, equities have historically proven an effective method of growing capital over the long term and protecting against inflation.

I am sure by now the clouds are a bit clear when it is the question of deciding whether to invest into equities or not. Obviously, the answer is an emphatic "YES". But the moot important question remains as to how much one must invest into equities to achieve an optimum balance. In other words one has to decide the quantum of investment i.e. how much one needs to invest into equities at any point in time.

Generally, investment into equities depends on someone's risk taking abilities and other associated factors. For example when you are in your twenties, just out of college and have also landed up into a good job, no much responsibility and not yet married, you can afford to take lots of risks. From twenties let us move on when you are in your forties'. At this juncture you will have lots of responsibilities on your shoulder - school going children, ever increasing household expenses and even pressure to save enough for your retirement. Thus at this age your risk taking abilities are comparatively lower than what they were when you were in your twenties.

As you grow older, time will come when you are nearing your retirement. Once retired your regular income [in the form of monthly salary] will no longer be available and this is the time when you have to depend on your past savings. What would be your risk appetite at this stage? Obviously quite low!

This all determines how much one can invest into equities at different stages of life. The thumb-rule is simple – just subtract your current age from '100' and you will get your allowable exposure ratio to equities. For example if your current age is 35 years, the equity composition in your portfolio can go up to 65 per cent, but the moment you reach 60 years of age, you must reduce your exposure to equity such that it remains at the level of around 40 per cent of your total portfolio.

Therefore, if you follow this simple rule, on one side you will continue to earn comparatively superior returns from the equity market, while at the same time you will also be able to manage the risk adequately. Now since we have found a credible answer to invest into equities, so what are you waiting for to make it a reality? Start picking stocks of your choice and join the club of global shareholders. Cheers!!!