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Reduce your Financial Anxiety

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Anything that costs you your peace is too expensive – Anonymous

Dear Investors and Partners,

I wish all my readers a very warm and financially prosperous year ahead. I sincerely wish that 2023 will be a year when investors will leave their financial anxiety behind. As the famous quote above mentions, the cost of anxiety is too expensive. Many would agree with this, but perhaps few have an idea on how to go about reducing their financial anxiety. This month, let me decode some of the learnings that I have had over the years.

Before attempting to reduce financial anxiety, we must identify its source. In my experience of interacting with different investors over the years, I have observed that anxiety chiefly stems from investor's behaviour. There are two predominant behaviour traits in particular that lead to anxiety a) crystal ball gazing and b) not focusing on processes. Many investors who suffer from financial anxiety indulge in the futility of trying to predict the markets. Timing the market and consistently doing it is a near impossible task. Investors can instead follow broad rules of thumb focused on asset allocation and diversification. One can further customize the thumb rules to suit one's requirements by appointing a financial advisor and taking his professional help. Secondly, investors must focus on the processes and controlling the controllable and not worry too much about other things, for e.g. macroeconomic factors like interest rates, inflation, crude oil prices etc. which are beyond one's control.

The above will get an investor to behave in a certain manner, which has the potential to help one over the longer term and thus reduce financial anxiety. Although, one cannot reduce financial anxiety completely because one's goal posts change and just knowing and acknowledging that should reduce one's stress. Thus, the aim is to try to reduce financial challenges as best as possible. In terms of specific actions, it is important to start with a well thought out financial plan, that follows the correct sequence of household budgeting, protection, emergency savings and then investments. Secondly, investors can look to diversify across as many different asset classes as possible (seven predominant asset class being equities, debt, gold, commodities, currency, real estate and alternatives). This is important because it can help mitigate the downside risk in one's overall portfolio. Apart from asset allocation and diversification, the third and most important action is to never disturb long-term compounding. I like to call it the sequence of return risk. Consistency of returns matters over the longer term. Once the compounding process is disturbed, it is much more difficult to get back on track and ultimately may lead to sub-optimal results in one's pursuit of achieving financial goals.

All of the above – both in terms of behaviour and specific actionables – can help in reducing financial anxiety but needs to be combined with some of the non-financial aspects. First and foremost, taking care of one's health is important. Secondly, one should "invest in oneself", meaning one should constantly look for ways and means to upgrade oneself in all aspects. Thirdly, one should look at the quality of time saved.

If the above tasks seem onerous and add to your anxiety instead of reducing it, the simple way out is to outsource it to a trusted, professional financial advisor, who can do the job for you.

Stay safe & happy investing.