PGIM
India Mutual Fund

All-Time Highs and Psychological barriers to investing

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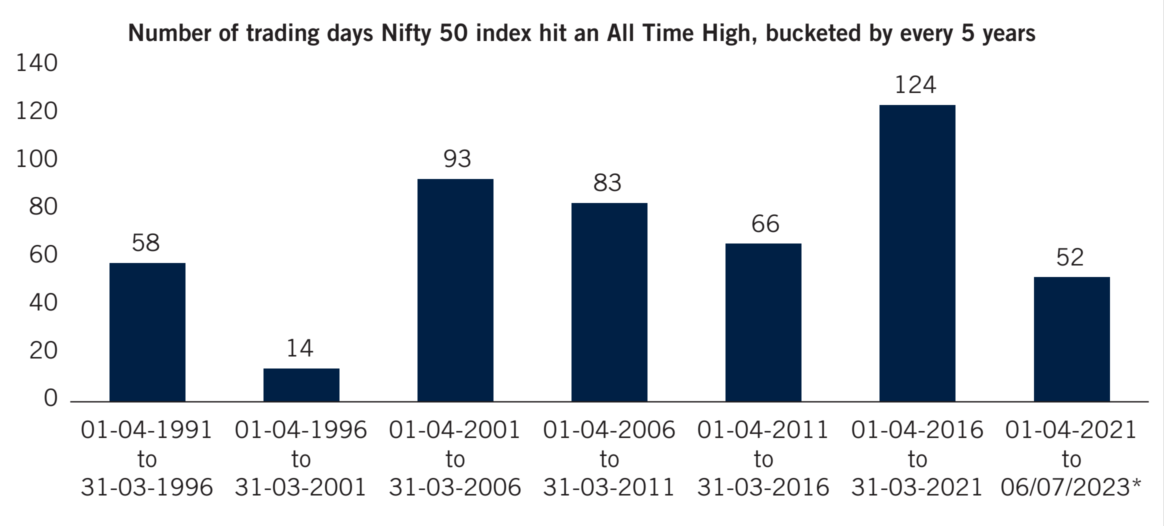
Ajit Menon
CEO

"Far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost in the corrections themselves."
– Peter Lynch

Dear Investors and Partners,

The headline indices like the Nifty 50 and Sensex have hit fresh all-time highs (ATH), and that is the talk of the town. However, at PGIM India, we have always advised our investors to just look at these as an indicator of broad trends, not fixate on these numbers and certainly ignore all the associated noise around these events. The hype around ATH can be a major deterrent to prudent investor behavior. In this letter let me share a few observations about ATH with all our readers.

Since we are of the opinion that investment horizon for equity investing should be at least 5 years, we divided the historical data for Nifty 50 Index, in different 5-year buckets, since 1990. We then checked the number of trading days when the Nifty 50 hit an ATH value.



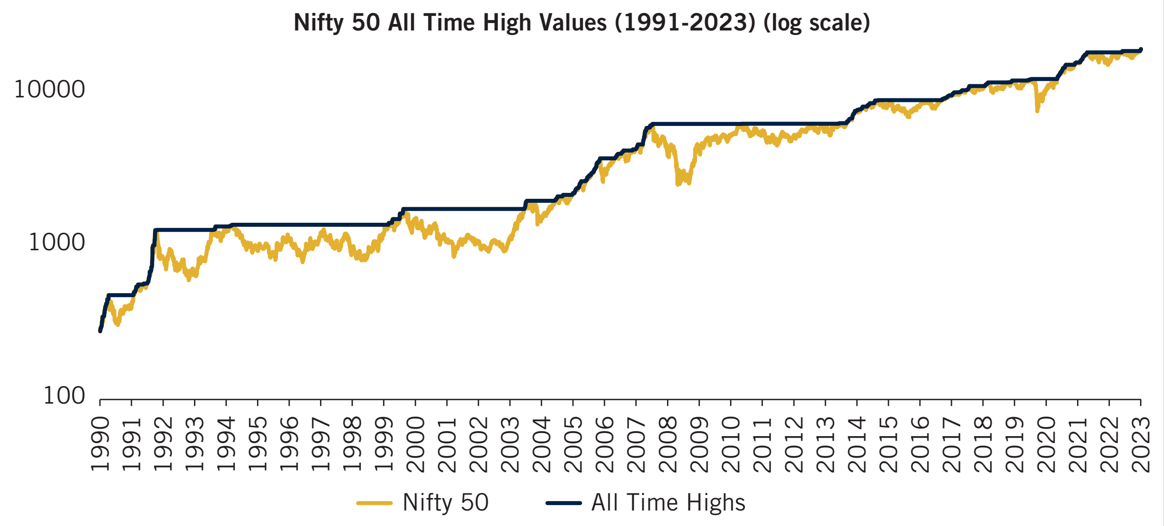
(Source: ICRA MFIE. *Data as of 6/7/2023)

The above data is very intuitive as we know India has been a growth market and Indian equities have delivered handsome returns over the longer term. Take for example the 5-year bucket between 2016 and 2021 when the Nifty 50 hit ATH on 124 trading days. Any investor who tracks these headline numbers might be tempted to take money off the table or at the least be wary of putting in additional money.

The easiest behavior hack to counter this is to invest for longer (5+ years). Staying invested in equities has its ups and downs, but it may lead to the desired outcomes over the long term. As we can see, markets hit new all-time highs in each subsequent block of 5 years. Thus, if one gets the market timing horribly wrong in the short term, it can be just a matter of time before equities deliver and make up for all the waiting.

Let me give some context on why equity investing may be rewarding. Equity is probably the only asset class that captures human progress and human innovation over time. As part owners, equity investors can reap the benefits of revenue and profit growth of companies driven by factors such as technological progress, economies of scale and improved efficiency. For sophisticated investors, we have additional vehicles like Alternative Investment Funds (AIFs) such as long only funds, hedge funds, PE and VC funds that may be able to capture the benefits of innovation. All other asset classes such as debt, bullion, commodities or real estate cannot capture this aspect like equities do.

This is easier said than done and there may be extended periods when markets test the patience and resolve of even the most disciplined investors. Refer the chart below:



(Source: ICRA MFIE. Data as of 6/7/2023)

The blue line in the chart shows the time Nifty 50 Index has taken to hit a fresh ATH, from the previous ATH. As we can observe, there are a number of instances when it takes a longer timeframe than 5 years to cross the previous ATH. For example, observe the period between end-2007 and early 2014. Considering one would have invested at the top, that's a 7-year period without any positive return, as India was heading towards its own version of the lost decade. The important thing to note is that these phases in the markets are typically characterized by economic upheavals. Between 2008-14, the Indian economy was displaying anemic growth and a lackluster political environment in terms of policy frameworks etc.

Thus, Indian markets which are at a fresh ATH again in July 2023 can be navigated with confidence using some behavioral hacks. Firstly, an investor should have the required patience and discipline and invest for more than 5 years. Secondly, one may have faith that the Indian economy will prove resilient and continue to be one of the fastest growth markets in the world. Treat ATH as just another number and don't let that deviate from your long-term financial goals unnecessarily. Finally, there's my favorite hack – to have a trusted financial advisor. Every individual's financial situation and needs are unique, leading to the need for personalized financial planning. Your financial advisor can not only help you plan your equity allocation, but also identify the equity segments to invest in based on your distinct financial goals, capacity and risk tolerance.

Thank you for your continued trust and confidence in our investment management services. If you have any questions or concerns, please do not hesitate to reach out to the PGIM India team or our distributor partners.

Stay safe & happy investing.