Mirae Asset Knowledge Academy

Profit from Knowledge

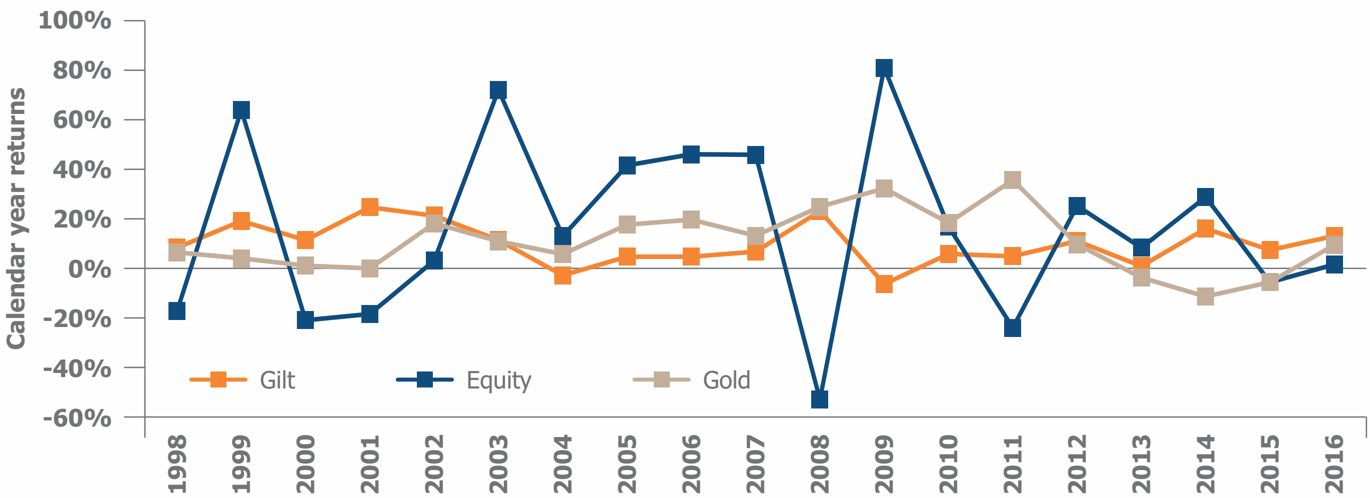
Invest in EQUITY & aim to create WEALTH

Performance of asset classes

Indians prefer debt over equity investments only because of the latter's volatility. Does that mean traditional debt investments such as fixed deposits, public provident fund and government bonds are completely volatility-proof? Shockingly no. Data proves it. Government bond prices fell 3% and 6% in 2004 and 2009, respectively. Another asset investors favourite gold, too, can lose glitter; prices dropped 11% and 6% in 2014 and 2015, respectively.

Callander Year	Gilt	Equity	Gold
1998	9%	-16%	7%
1999	19%	64%	5%
2000	12%	-21%	2%
2001	25%	-18%	1%
2002	22%	4%	19%
2003	12%	73%	12%
2004	-3%	13%	6%
2005	6%	42%	18%
2006	5%	47%	20%
2007	7%	47%	13%
2008	23%	-52%	25%
2009	-6%	81%	33%
2010	6%	17%	20%
2011	5%	-25%	37%
2012	12%	26%	10%
2013	1%	9%	-3%
2014	17%	30%	-11%
2015	8%	-5%	-6%
2016	14%	2%	10%

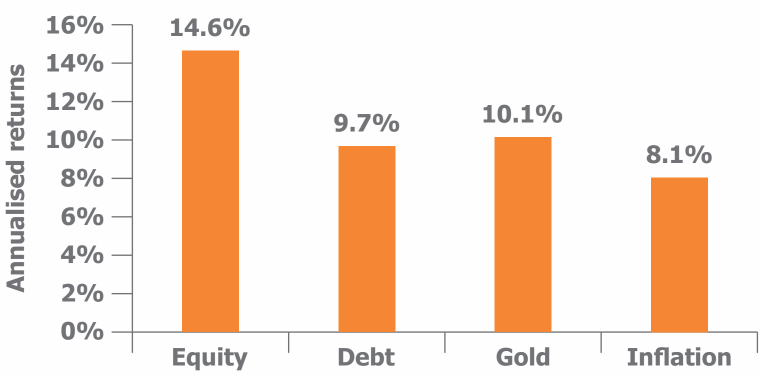
Calendar year performance



Past Performance may or may not sustained in future. Gilt and Equity is represented by CRISIL Gilt Index and S&P BSE Sensex respectively. Gold prices of 10 grams. Source: CRISIL Report

Though Equity is volatile in the short term, long term does spell rewards thanks to the power of compounding. For instance, equity represented by S&P BSE Sensex has returned 14.6% p.a., on average, over 20 years on a daily rolling basis since 1979. Over the same period, debt represented by banks' FD and gold yielded 9.7% and 10.1%, on average. If average inflation of 8.1% for the same period is considered, real returns (inflation adjusted returns) from these investment avenues can be discouraging.

Long term performance



Past Performance may or may not sustained in future. 1. Interest rate of fixed deposits with maturity over five years. 2. LBMA prices converted into rupees. 3. Average of annual CPI-Industrial Worker inflation. Source: CRISIL Report

Downside risk reduces in long term

To really reap from equities, one needs to patiently sow investments for a long period. Rolling returns distribution for various time horizons shows that probability of getting negative returns (or principal loss) diminishes with increase in the holding period. For a holding period of 15 years and more, equity investment (represented by S&P BSE Sensex) has never given negative returns. Further, there is zero probability of earning returns less than 5% and 10% if the holding period is more than 15 years and 25 year, respectively.

Return distribution across holding periods

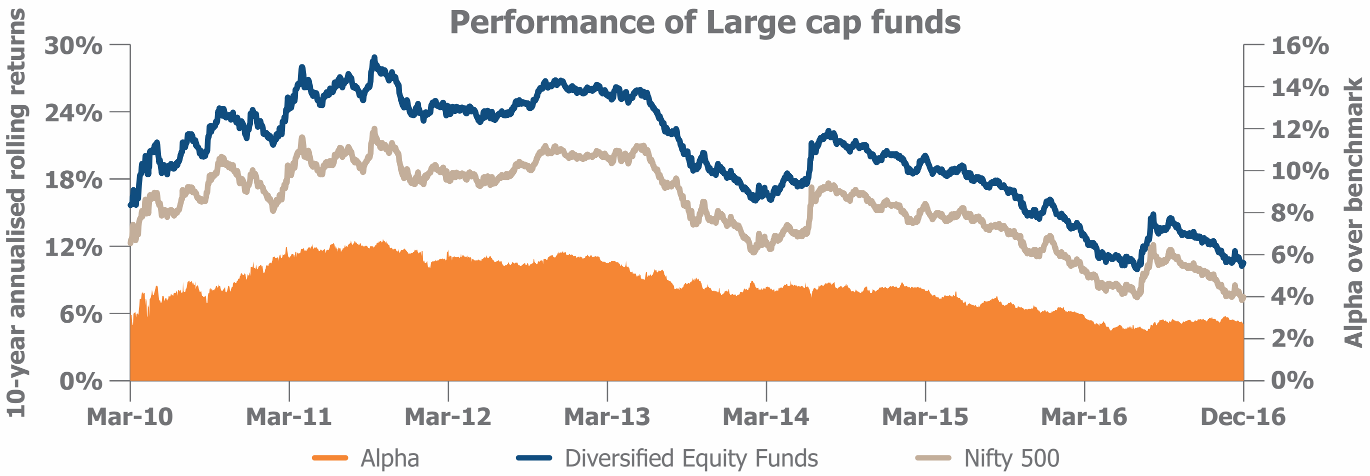
Annualised Return	5-years holding period	10-years holding period	15-years holding period	20-years holding period	25-years holding period	30-years holding period
< 0%	9%	1%	0%	0%	0%	0%
0% to 5%	13%	9%	0%	0%	0%	0%
5% to 10%	15%	10%	7%	10%	0%	0%
10% to 15%	13%	19%	57%	42%	28%	21%
15% to 20%	14%	31%	17%	40%	72%	79%
20% to 25%	13%	17%	16%	7%	0%	0%
25% to 30%	7%	7%	3%	0%	0%	0%
> 30%	17%	6%	0%	0%	0%	0%

Past Performance may or may not sustained in future. Annualised returns on a daily rolling basis since June 1979. Data as on 28th February, 2017.
Source: CRISIL Report

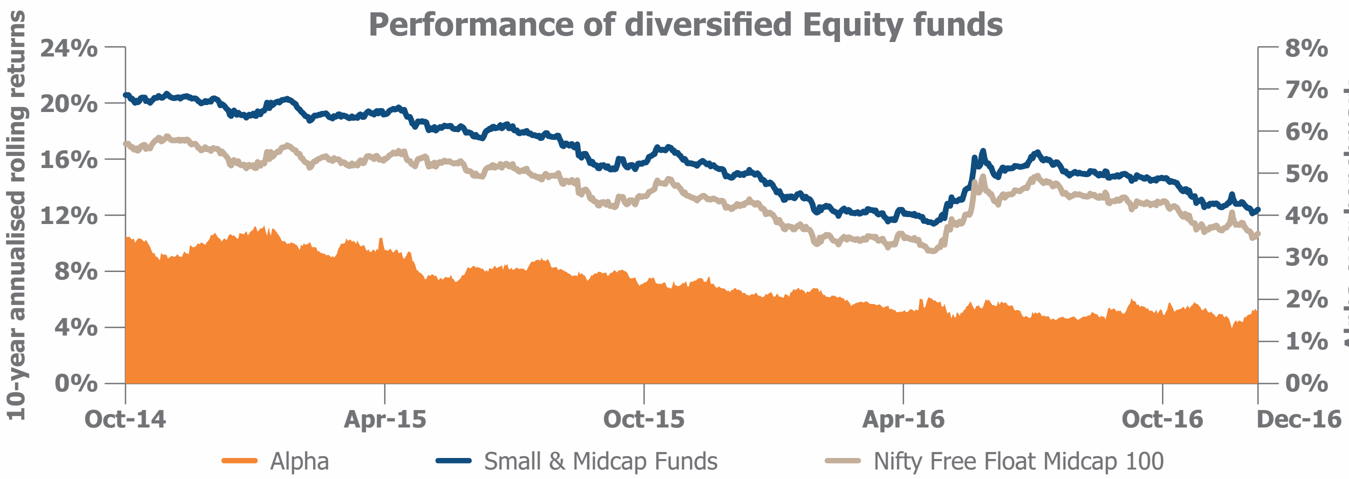
Professional management can be more rewarding

Mutual funds can be considered as the best platform to invest in equities for investors who do not have the wherewithal to invest directly. They are professionally managed and have the ability to generate higher returns than the market. Long-term performance of various equity mutual funds shows that they have created consistent alpha over their respective benchmarks on the back of fund managers' expertise. Large cap, diversified equity, and small and midcap funds, represented by CRISIL-AMFI mutual fund performance indices, outperformed their benchmarks by 5%, 4% and 2%, respectively, over the long term. Mutual funds also offer benefits of variety, convenience and transparency, and are lighter on the wallet.

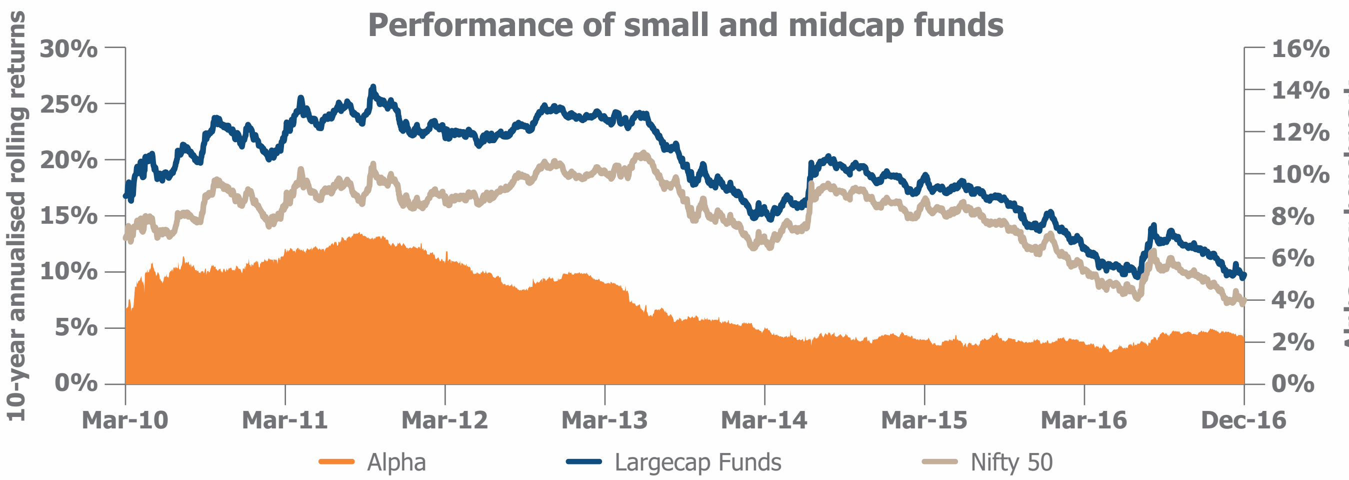
Performance of Large cap funds



Past Performance may or may not sustained in future. Data since 30-Mar-2000 (inception of CRISIL - AMFI Large Cap Fund Performance Index)



Past Performance may or may not sustained in future. Data since 30-Mar-2000 (inception of CRISIL - AMFI Diversified Equity Fund Performance Index)



Past Performance may or may not sustained in future. Data since 01-Oct-2004 (inception of CRISIL - AMFI Small & Midcap Fund Performance Index)

Investing regularly via systematic investment plan (SIP) can effectively iron out volatility. Rupee cost averaging converts short-term pain into long-term gain as more units are accumulated in a downtrend, which boosts the investment value once the market trends upward.

Key takeaway - For long-term wealth creation, one needs to compound investments at higher inflation-adjusted returns. Equity has this ability. However, assess your risk profile and make appropriate allocation to it.

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