How not to lose sleep in a bear market

Here are four simple things that you can do to stop worrying about a fall in your portfolio in a bear market

Dec 13, 2018

Even if you're a sensible investor who has invested in reasonably good funds and avoided common investment mistakes, the three-digit swings in the Sensex from day to day and daily television debates about looming risks can give you sleepless nights. And sleepless nights can be a big enemy to staying the course with your investments.

So here are four simple tips to sleep easier in volatile markets.

Don't check your portfolio every day

If your financial goals are five-plus years away, a 2 per cent drop in your portfolio value today or a half a per cent rise tomorrow is really going to make no difference to the final corpus you manage to build by the time you get to your goals. Therefore, obsessively checking on the NAVs of all your equity funds and fretting over the number of zeros that have been shaved off your net worth every day should be avoided.

To avoid the temptation to check on your portfolio every day, think of your equity-fund portfolio as similar to the jewellery lying in your bank locker or your investment in property. Both gold and real-estate markets go through swings on a daily, weekly and monthly basis. But you are hardly bothered to check on their value every day because you are quite confident that if you hold on long enough, they will appreciate in the long run.

Now, even more than gold or real estate, equities, as an asset class, are hardwired to appreciate in the long run. If the profits of the companies that your equity fund owns rise over the next five, 10 or 15 years, their stock prices are guaranteed to follow suit. Worrying about the daily blips in their value, just because funds are providing you with a daily NAV, is simply illogical.

Forget its peak value

If you watch over your equity portfolio like a mother hen, the peak value that you saw on your accounts statement during recent market highs is probably burnt into your mind. And once you register what your portfolio was worth in October 2017, you tend to keep evaluating its current value against that number, with every little fall giving you twinges of regret.

'What if I had sold my entire portfolio to lock into those gains?' 'What if I had switched into liquid funds in October?'

Such what-if scenarios don't serve much purpose except inflicting mental torture on you. Even the most talented super-rich investors in India didn't manage to shift wholly into cash to protect their portfolios and have taken big hits in this market fall. So why beat yourself up about it?

To ensure that you remain on the right track, assess your portfolio return since you started investing and see if that is good enough to see you through to your goals. If the market high that took your portfolio value to great heights didn't last, neither will current market lows that are making it look so bleak.

Don't double-guess stocks or sectors

When your fund NAVs are rising, you often don't investigate which stocks or sectors are giving them a leg-up. But when they're falling, there's a strong temptation to find out the villains of the piece.

As the NBFC crisis unfolded in recent weeks, there was a concerted effort to find out which equity funds had a high exposure to the NBFC stocks that took a battering, with a media debate on whether such funds need to be avoided. When governance problems triggered 50-60 per cent drops in a few stocks, there were analyses of fund portfolios to find out which fund managers had erred in owning them.

Now, while there's no harm in being curious about which funds had exposure to the stocks which fell the most, this certainly cannot be the basis of a decision to sell or buy a fund. There's no fund manager or investor in the stock-selection business who hopes to get 100 per cent of his calls right. Even Warren Buffett has made quite a few bloopers and has exited those stocks at a loss. What matters to you, as a mutual fund investor, is whether the fund manager, by getting more of his calls right than wrong, manages to deliver an aggregate NAV performance that creates wealth for you in the long run. One wrong call on an Infibeam or a Dewan Housing really isn't going to influence a fund's five- or 10-year returns much.

There's also a second reason to stop obsessing about whether your fund manager is buying the right sectors and stocks. The very reason why you haven't invested all your money directly in equities and have taken the fund-manager route is to avoid the daily headache of analysing minute stock-market developments. Now that you're paying a hefty fee to your fund manager to do this, why duplicate the effort by second-guessing his strategy?

Your neighbour's returns don't matter

For some people, investing, like buying a new home or a car, is a competitive sport. They get a kick out of boasting about their latest blockbuster stock in the water-cooler conversations at work. Or they want to wow their relatives at a family function by showcasing their investment savvy.

If you have such colleagues or relatives, learn to ignore them without letting the green-eyed monster destroy your peace of mind. If such encounters make you feel inferior about your stock- or fund-selection skills, be assured that the multi-bagger investments that you're hearing about are probably exaggerated. Most people like to brag about their investment bets that delivered mind-boggling returns while quietly sweeping the lemons they own under the carpet.

To most ordinary investors, getting to a 15 per cent annualised return on their equity portfolios over an extended period is quite an achievement. Though some stocks or funds may demonstrate extraordinary point-to-point returns between carefully chosen dates, most of us do not have much choice about when we start investing or how much we get to allocate to equities because both are decided by how much money we have with us on the date of investment.

Remind yourself that you are investing in mutual funds to build a certain corpus for your daughter's college or the down payment on your home or your retirement a few years hence. As long you are on track to get to that goal, what does it matter whether your neighbour made a killing on XYZ stock?