

Trend Watch

Time to grow retail investors' share of equity pie

Awareness of equity's return potential will spur them to look beyond gold and realty

ARUN THUKRAL

The proportion of investment in equity by Indian retail investors is very low. Less than 5 per cent of Indian household savings is invested in equity. In contrast, in the US, the long-term average is 45 per cent. Retail investors hold 89 per cent of mutual fund assets in the US, and they rely on these funds to meet their long-term financial objectives, including retirement.

In India, equity investment for retirement planning is still a new

concept. Moreover, the equity culture that exists in our country is limited to metros and tier-1 cities. The hinterland remains untapped.

Growing awareness

However, we have seen the seeds of financial inclusion and awareness spreading into the hinterlands as well with Jan Dhan accounts, along with deeper penetration of private banks and NBFCs. This is the first step, as the savings of these people are channelised through different financial products vis-à-vis their erstwhile physical assets like real estate and gold.

Secondly, the digital revolution is catching up rapidly and is empowering the 100 crore-plus mobile user base with access to cheap data. Thirdly, business news chan-

nels/media in vernacular medium is gaining momentum, spreading the much needed equity awareness. And finally, bank-led brokers are gaining access to the hinterland by virtue of banks' expansion into these regions. The confluence of these factors will spread awareness about equity as a high yielding asset class over the long term.

Household savings as a percentage of GDP is at 28 per cent for India – amongst the highest in the world. Just think, if these funds, at the least, say, 25 to 30 per cent, were to find their way to equity/mutual funds, it will surely be a game changer and help boost the equity asset class and, in turn, the economy.

But that said, it also has to be acknowledged that Indians have a

strong affinity towards physical assets, especially, real estate and gold. Investors are still not convinced about the benefits of investing in equity markets. Being risk-averse by nature, people are happy with the safety of single-digit returns on their funds rather than mid-teen returns – due to the volatility in the equity markets.

I believe that the biggest trigger for the equity asset class will come from individual investors themselves and from our long-term savings!

But is investing in financial markets a good proposition? Yes, studies have shown that investments in equity held for a long tenure have yielded far superior returns than any other investment. Equity investment has been the largest

wealth creator, globally. The average annual return of the stock market from 2001 till date, considering Nifty index as the benchmark to compute the returns, has been around 15 per cent. The financial markets are more transparent and a competitive place for conducting transactions.

Filip from government

The government has also supported implementing tax benefits to equity investments scheme – the Equity Linked Saving Schemes (ELSS) – to drive retail investors' participation in the equity market.

The regulator has also taken sufficient steps to ensure that fair practices prevail in Indian financial markets. The lower cost of entry for the retail investor in

stock markets, strong regulations to guard against market manipulation and price rigging, comprehensive information disclosure by issuers of equity and educating the investors on the potential savings opportunities in the equity market as well as on the investment strategy are some of them.

Also, the equity brokers and mutual fund distribution network has been expanding at a faster pace to attract retail investors. Thanks to the digital revolution, the process of investing in equity today has become extremely simple, be it



through web portal or mobile app. Even for the not so digitally savvy investors, there are avenues to invest offline through equity advisors. Further, the cost for the retail investor to invest and be active in equity markets has been substantially reduced.

The writer is MD & CEO, Axis Securities