HSBC Mutual Fund

# Mistake to avoid during times of volatility

The first thing to understand is that volatility is unavoidable and natural, and it can occur at any time. When you are ready for volatility, you are more likely to react rationally when you find yourself in volatile markets. Here are some mistakes that you should avoid in volatile markets: -

1. **Panic selling:** Greed and fear are common behavioural biases. When the market keeps falling, fear begins to affect investor's psyche. When fear turns into panic, investors redeem their investments. In a falling market, the value of your investment keeps going down. However, the reduction in value is purely a notional loss if you remain invested. When you redeem in a falling market, the notional loss becomes a permanent loss. Remain patient in volatile markets. Historical data shows that the market eventually bottoms out and recovers.

2. **Stopping SIPs:** Many investors do not want to invest when the market is going down. Some stop their SIPs in the falling market due to the fear of making more losses. SIP can actually help you take advantage of volatility through rupee cost averaging. In falling markets, you can acquire more units with the same monthly investment if the NAVs are going down. Continuing your SIP in volatile markets can help to get returns over the long investment horizon.

3. **Bottom fishing:** Some adventurous investors attempt bottom fishing during corrections. Bottom fishing refers to the tactic of buying stocks that are trading at low prices or buying stocks whose price has declined the most. You may get tips that such and such stocks are trading at rock-bottom levels and will produce multi-bagger profits. Avoid acting on such tips unless you have a thorough understanding of stocks. Stick to mutual funds, that invest in a diversified portfolio of stocks, that are well researched and managed by experienced investment professionals.

4. **Trying to time the market:** One common mistake that investors make is attempting to start and stop investing based on market lows and highs. Predicting market peaks and bottoms is not only extremely difficult, but also quite unnecessary if you are a long-term investor. Time spent in the market is much more important than timing the market. Wealth creation is higher over the longer investment tenures due to the power of compounding.

5. **Avoid herd behaviour:** Herd mentality is a common behavioural bias in investing. Herd behaviour causes extreme volatility. Do not make buying or selling decisions based on what you see others are doing. Behavioural biases trigger irrational reactions to events in the market. A rational investor avoids becoming a victim of behavioural biases and rem ains focused on his / her financial goals.

6. **Don't put all your eggs in one basket:** Historical data shows that winners rotate across asset classes, market capitalization segments and industry sectors. For example, small and midcap stocks outperform large caps in bull markets; large caps outperform small and midcap stocks in volatile markets. Therefore, asset allocation, i.e. spreading your investments over different asset classes and market capitalization segments will reduce volatility and bring relative stability to your portfolio.

7. **Avoid reacting to market grapevine and rumours:** There may be all kinds of information in market grapevine e.g. ABC company is about to acquire XYZ company, the Government is about to bring some policy change etc. In bear markets, you may hear some so-called experts making doomsday predictions. In the age of social media, sensational information may get amplified, but you must not give credence to such information. Information coming through market grapevine is often rumors and hence untrustworthy. You must make your investment decisions based on accurate information that you can verify with credible sources. Consult with your financial advisor or financial expert if you need help in making investment decisions

8. **Volatility versus loss of capital:** Investors should recognize the distinction between volatility and loss of capital. Volatility is fluctuations in price. We may go through extended periods of volatility when prices are declining. Price volatility can turn into a loss of capital if you redeem your investments. But if you stay invested, the market will eventually recover and there may be opportunities for your capital to grow over long term.

## Conclusion

Volatility can be stressful and challenging to deal with. Discipline and knowledge are your two best friends in navigating through the uncertainties in volatile market. Contact your financial advisor or financial expert if you need help in making investment decisions.