Why equity?

Cut out the noise to build wealth

March 2020

HSBC
Global Asset
Management

An Investor awareness program initiative

Why make equities a part of your investment portfolio?

Let's listen to Rahul and Nakul's conversation

Rahul and Nakul are old friends who meet after a long time. After chatting for a while, their discussion moves on to their kids who happen to be of the same age.

I plan to give my child the best education and my goal is to send him to the Indian Institute of Technology (IIT).

You stole my words! I have been contemplating the same and have been identifying avenues to invest in for the fees.

Why think so much? I am planning to invest in traditional fixed income instruments. Anyway, the fee is not much. Currently, it is Rs 8.8 lakh for a four-year course in IIT Bombay.

But have you factored inflation into the fees? Our kids will not be applying for the course for another 15 years.

Will inflation matter?

Of course, it will. Do you remember our fees used to be in thousands? And look at the fees now. If you factor in inflation of 7%, the fees can quadruple to nearly Rs 25 lakh in 15 years.

Hmm. Which means I will have to forego some of my current goals and invest more in fixed income instruments.

Have you thought of investing in equity through equity mutual funds? Not only can you reduce your investment amount, but also benefit from the asset class over the long-term investment horizon.

Systematic investments in equity provides optimum results for investors over the long term

More benefits in the long term

As can be seen below, we can achieve our goal even with a lower investment by investing systematically in equity mutual funds. The surplus that remains can be used to target other life goals

	Equity	**Fixed income instruments**
Goal	Higher education for kid	
Current cost of goal	Rs 8.8 lakh*	
Goal period	15 years	
Future cost	Rs 24.28 lakh^	
Monthly investment amount needed to achieve goal	~Rs 3,500@	~Rs 7,600#

Notes:
*IIT Bombay
Assuming inflation of 7% which is the average inflation rate of industrial workers since January 1988 till November 2019
@Grown at 15% represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till Dec 2019
#Grown at 7.60% represented by 1-year FD index returns between October 1999 and November 2019
The projection contained in this graph is for illustration purposes only and is not guaranteed.
Investments are subject to market risk. Past performance may or may not sustain, past performance does not guarantee the future performance.

Systematic investments in equity provides optimum results for investors over the long term

Big picture: Where do Indians invest?

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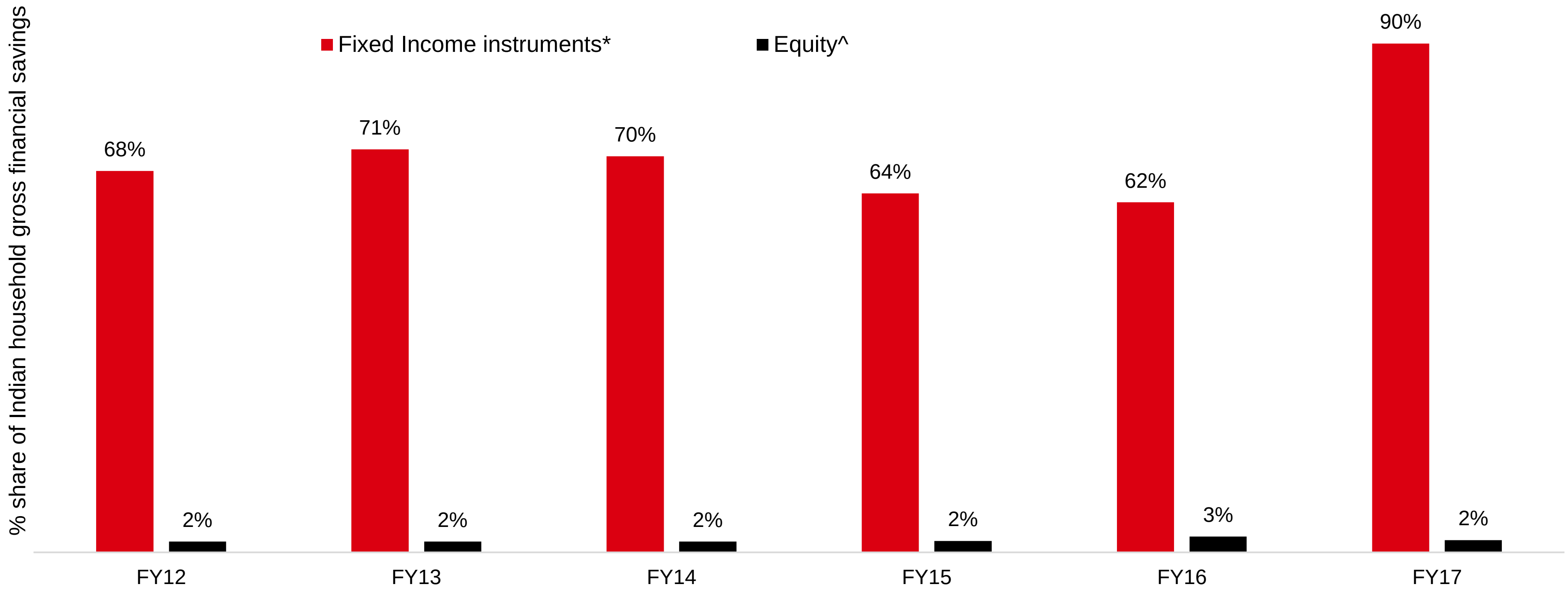
Fixed income instruments traditionally a favorite with Indian households

Equity plays a marginal role



Indian investments remain skewed towards debt

Source: RBI

Notes:

*Fixed income instruments include deposits and investments in provident and pension funds

^Equity includes investments in shares and debentures

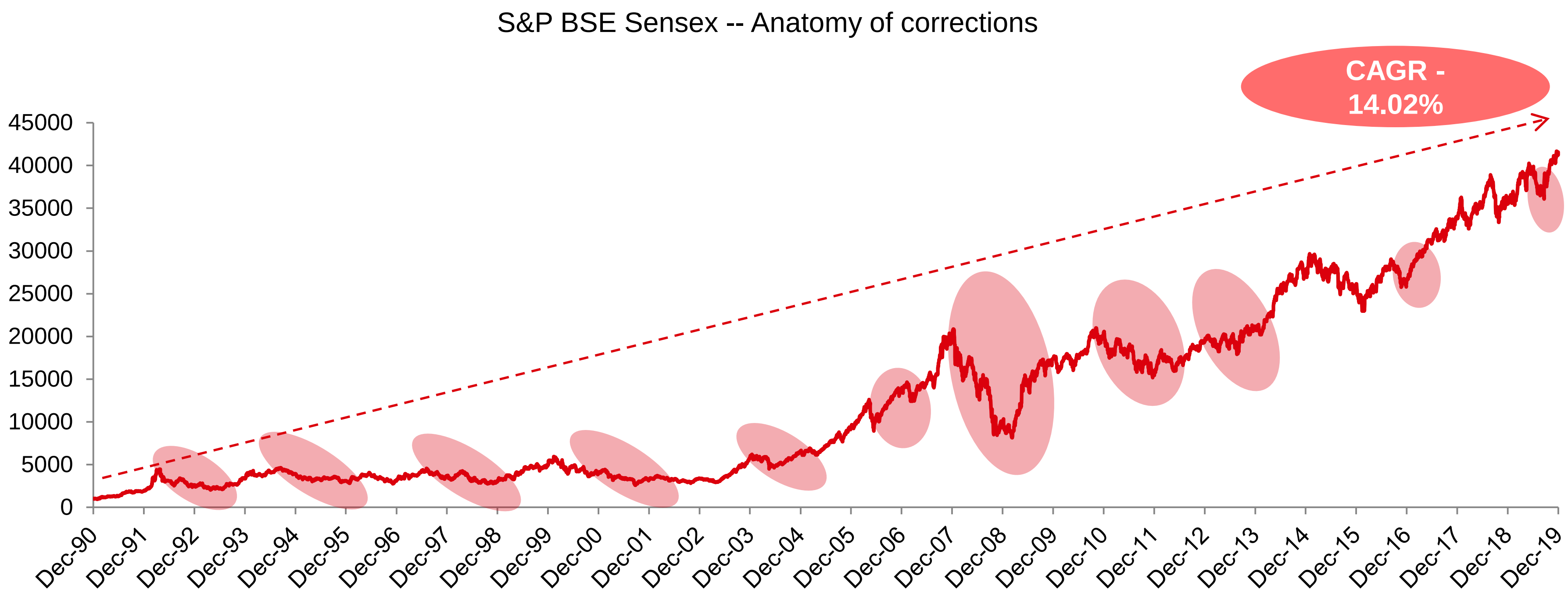
Five reasons why you should invest in equities

Growth	Inflation	Returns	Goals	Retirement
India's equity market performance highlights the potential of equities to deliver growth for investors	Investing in equities may provide an opportunity to outperform the ever increasing inflation and improve purchasing capacity	Historically, equity investments have relatively outperformed other asset classes over the long term ^	Investing in equities may aid in goal planning and help you meet your goals that seem difficult now	Potential to save so much that you can manage to retire early and enjoy life

Equity investment is relatively less explored in India than other options

Note: ^ Investments are subject to market risk. Past performance may or may not sustain, past performance does not guarantee the future performance.

Equity has grown 39 times in the past 29 years at a CAGR of 14.02%



Note: Highlighted circles represents correction in the market

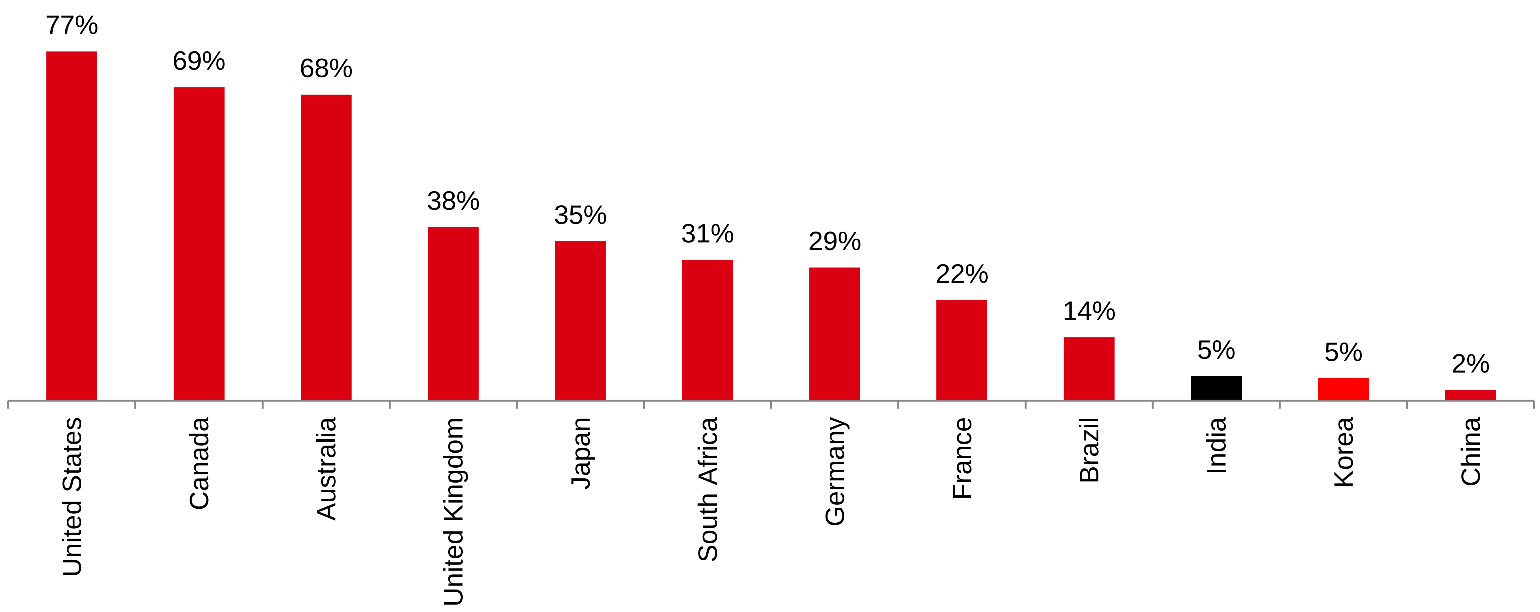
Steady trend

Source: BSE, Dec 1990 – Dec 2019,
Note: Investments are subject to market risk. Past performance may or may not sustain, past performance does not guarantee future performance.

Globally, equity is the most preferred investment avenue

Developed countries have higher affinity to equity

- Emerging economies are significantly under-exposed to the equity asset class compared with developed economies



India has one of the lowest equity exposures of only 5%

Source: CRISIL, IMF, IIFA
Notes:
GDP data as of December 2019; assets data as of Q3 2019 except for India
India’s AUM of equity and balanced/ mixed funds (assuming 70% allocated to equity) is used as proxy for retail investors’ investments in equity; data as of December 2019
Investments are subject to market risk. Past performance may or may not sustain, past performance does not guarantee the future performance. Mutual Fund investments are subject to market risk, read all scheme related documents carefully

Where do people in advanced economies invest?

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Equity exposure well suited for India's young demography

Scope to increase equity allocation

- Young investors can have higher equity exposure owing to higher risk appetite

India is likely to remain a young country in the future

Share of 15-49-year-olds in the country's population			
Country / region	**2020**	**2035**	**2050**
Australia	**47%**	**44%**	**43%**
Brazil	**54%**	**48%**	**41%**
China	**49%**	**44%**	**38%**
India	**54%**	**52%**	**47%**
Japan	**40%**	**35%**	**33%**
Russian Federation	**46%**	**44%**	**43%**
South Africa	**54%**	**52%**	**49%**
United Kingdom	**44%**	**43%**	**41%**
United States of America	**46%**	**45%**	**42%**

Young investors can invest more in equity to benefit from long-term compounding

Source: CRISIL, UNCTAD,
Note: Investments are subject to market risk. Past performance may or may not sustain, past performance does not guarantee the future performance.

Inflation a factor that is not taken into account

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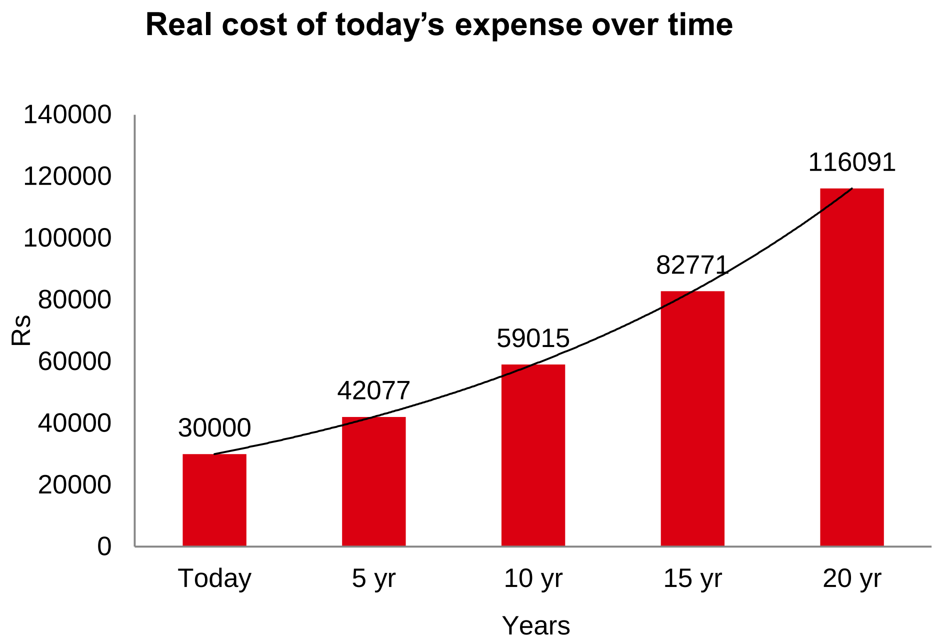
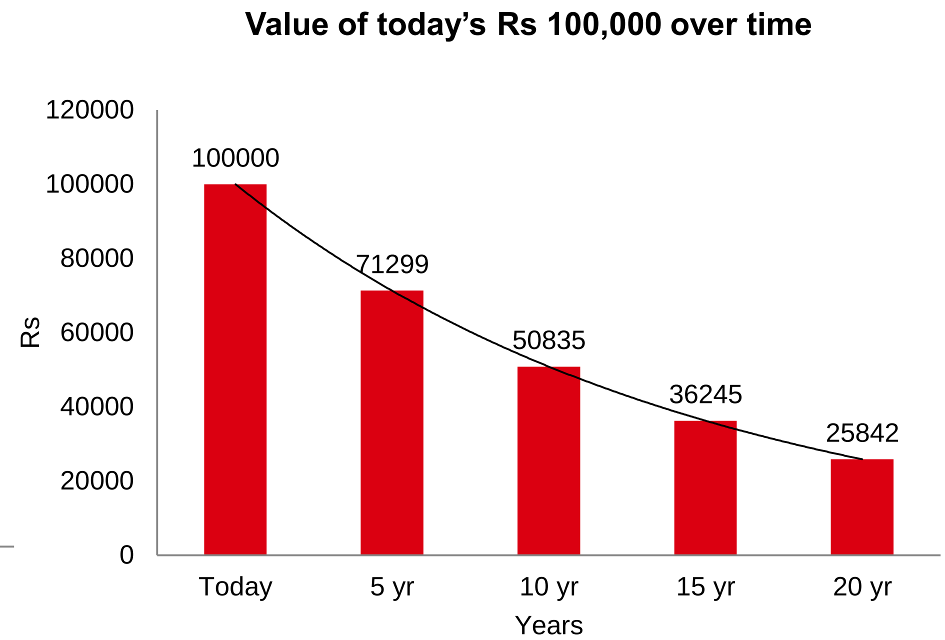
In fact, inflation eats value of money

If our expenses are real, returns should also be real



At inflation of 7%



At inflation of 7%

Savings is not enough, inflation not only increases cost of products, it also reduces value of money!

Source: Labour bureau.nic.in
Notes:
Inflation represented average of monthly inflation of industrial workers declared since January 1988 till November 2019
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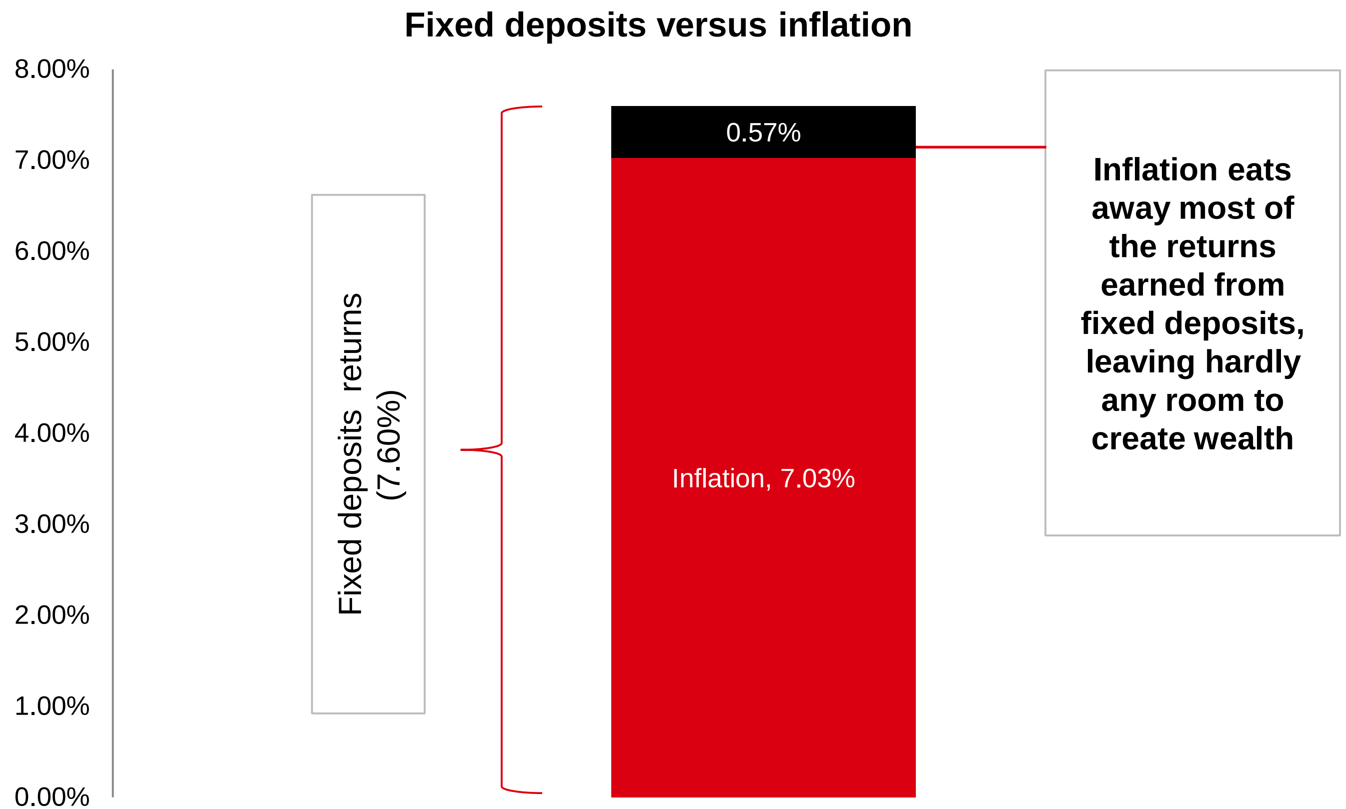
Traditional savings do not offer enough cushion

Inflation generally consumes investment capital



Difference between saving and investing is the ability to provide an affordability cushion by beating inflation on a regular basis

Source: CRISIL Research, Labour bureau
Notes:
Fixed deposit rate represented by 1-year FD index's annualised returns since October 1999 till November 2019
Inflation represented average of monthly inflation of industrial workers declared since January 1988 till November 2019
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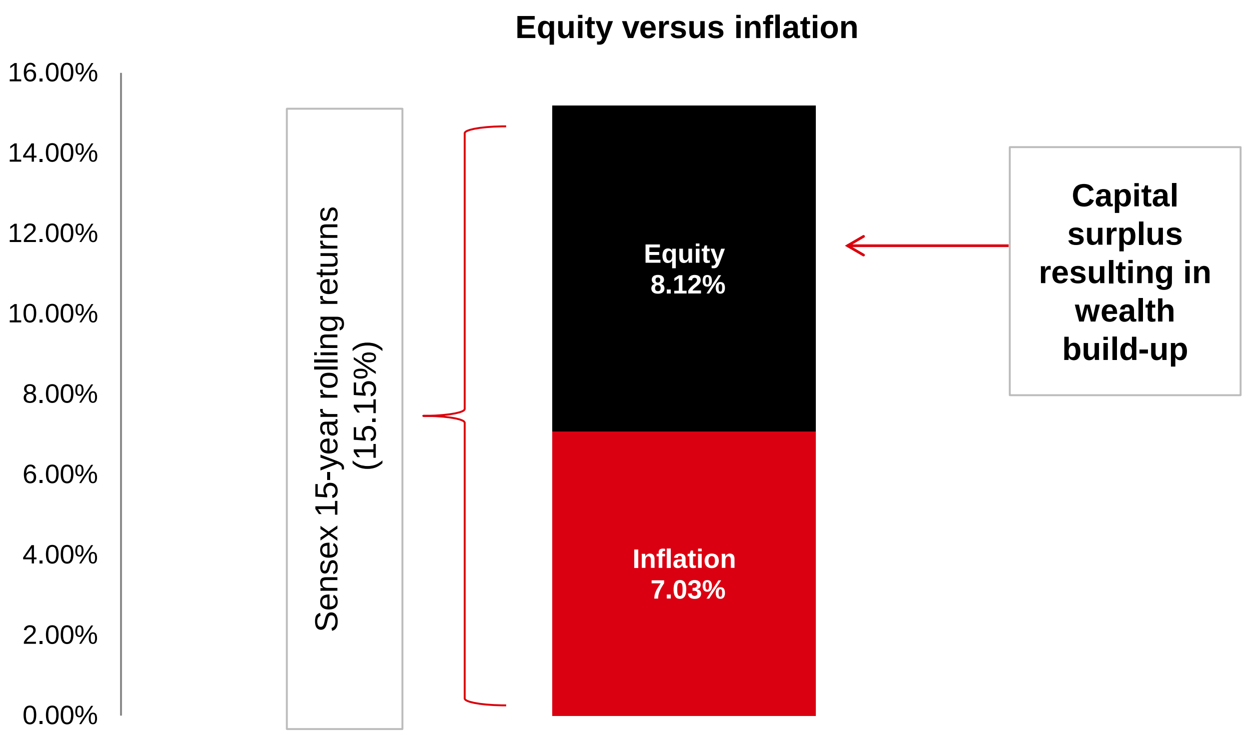
Equity provides a cushion against the ever-increasing cost of living

The smartest way to create wealth



Regular investment in equity helps tackle the rise in cost of living and plan for future goals

Source: BSE, Labour bureau
Notes:
Equity returns represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till Dec 2019
Inflation represented average of monthly inflation of industrial workers declared since January 1988 till November 2019
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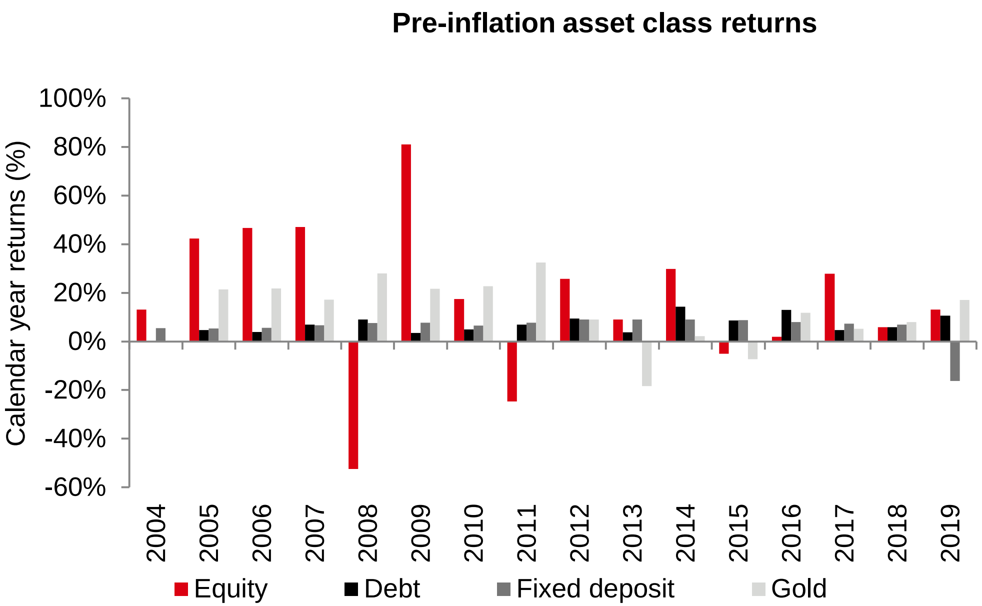
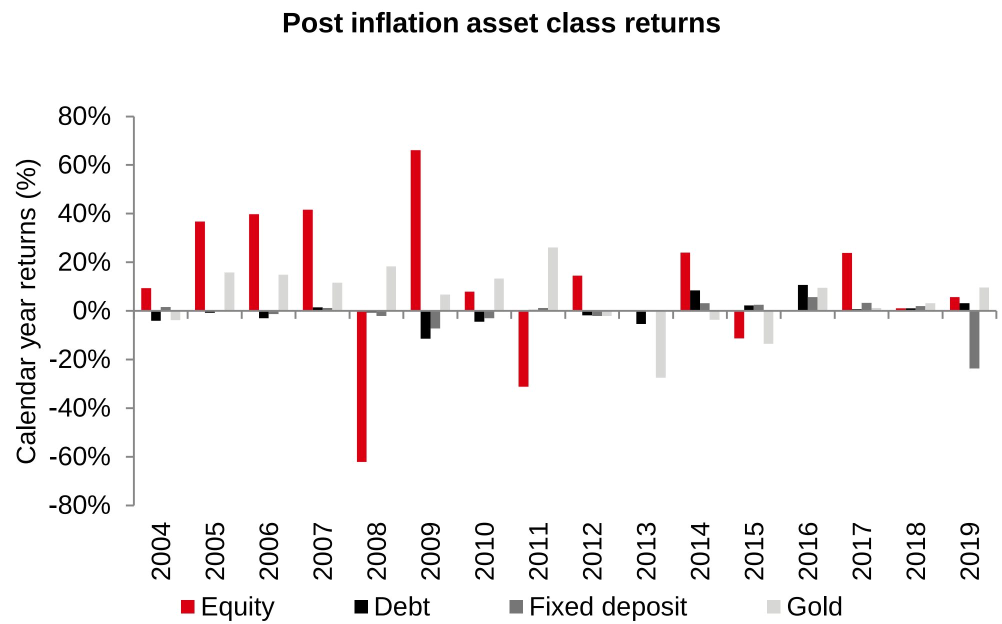
Calendar year returns shows that equity performs better than other assets

Pre- and post-inflation returns





Equity has outperformed other asset classes in most calendar years

Source: BSE, LBMA, CRISIL, Labour bureau
Notes:
Data as of November 2019
Year-on-year returns for all asset classes
Equity represented by S&P BSE Sensex, debt by CRISIL Composite Bond Index, fixed deposit rate represented by 1-year FD index, gold by global prices converted into rupee and inflation by annual CPI-Industrial worker.
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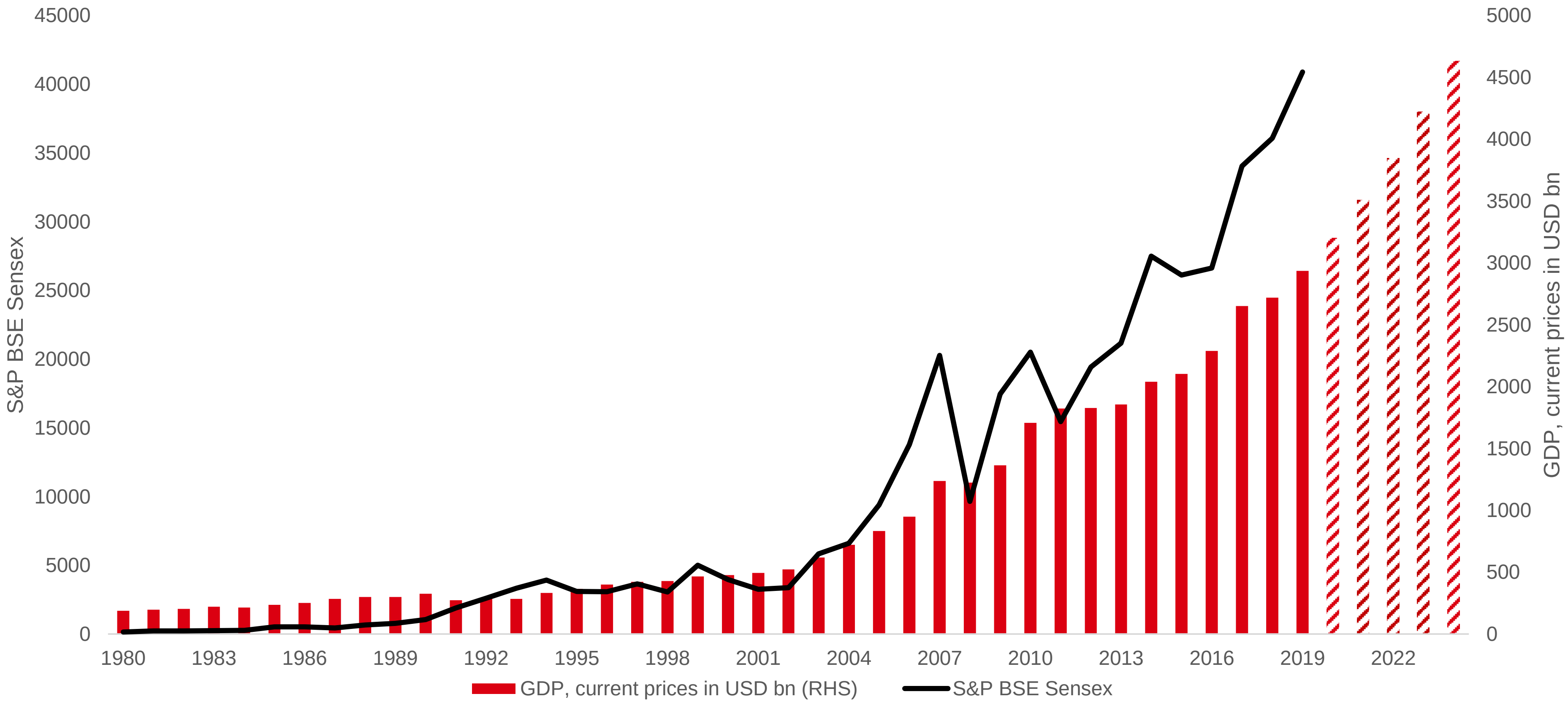
Equity mirrors economic growth in the long term

India expected to remain on long-term growth trajectory



GDP data after 2018 are projections

Equity offers opportunity for long-term wealth creation

Source: BSE, IMF

Notes: Data as of IMF WEO of October 2019

GDP projection starts after year 2019 and is shown shaded in this graph is for illustration purposes only and is not guaranteed.

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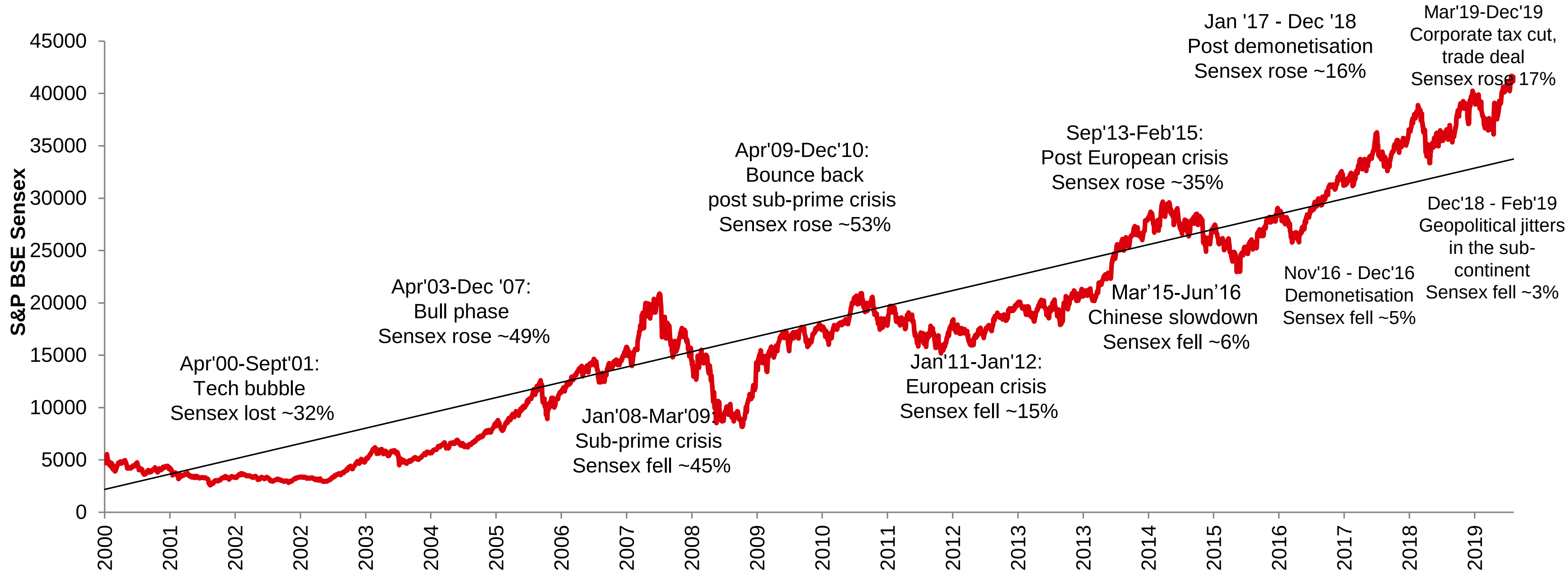
Notably, the ride has not been smooth

Highs interspersed with lows



Source: BSE, CRISIL Research

Notes:

Data as of December 2019

Returns for period less than one-year are absolute otherwise annualised

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Short-term volatility is an intrinsic part of equity investment

Long-term investment pays off

BSE Sensex	3-year rolling returns	5-year rolling returns	7-year rolling returns	10-year rolling returns	15-year rolling returns
Average rolling period returns	**16.62%**	**16.23%**	**15.87%**	**15.82%**	**15.15%**
Total time periods (monthly rolling)	451	427	403	367	307
Total number of positive returns*	401	394	378	364	307
Total number of negative returns^	50	33	25	3	0
Positive investment periods	**89%**	**92%**	**94%**	**99%**	**100%**

The longer you stay invested, lower the possibility of negative returns

In the long term, the probability of incurring loss is lower in equity investment

Notes:

Monthly rolling returns for respective holding periods since 1979. For instance, in case of 15-year monthly rolling returns, there will be 307 return periods. The first return period will be June 1979 to June 1994 and last return period will be December 2004 to December 2019.

* Positive returns – The number of investment periods during which returns have been positive. For example, where investment returns have been computed for a 15-year rolling period, 307 months offered positive returns (profits), the number of positive returns period = 307

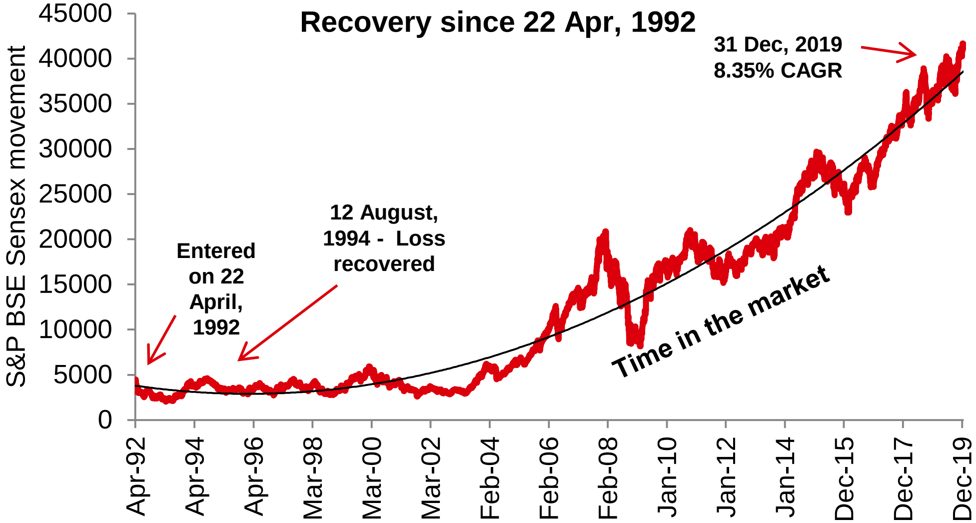
^ Negative returns – Number of investment periods during which returns have been negative. For example, where investment returns have been computed for a 5-year rolling period, 33 months offered negative returns (losses), the number of negative returns = 33.

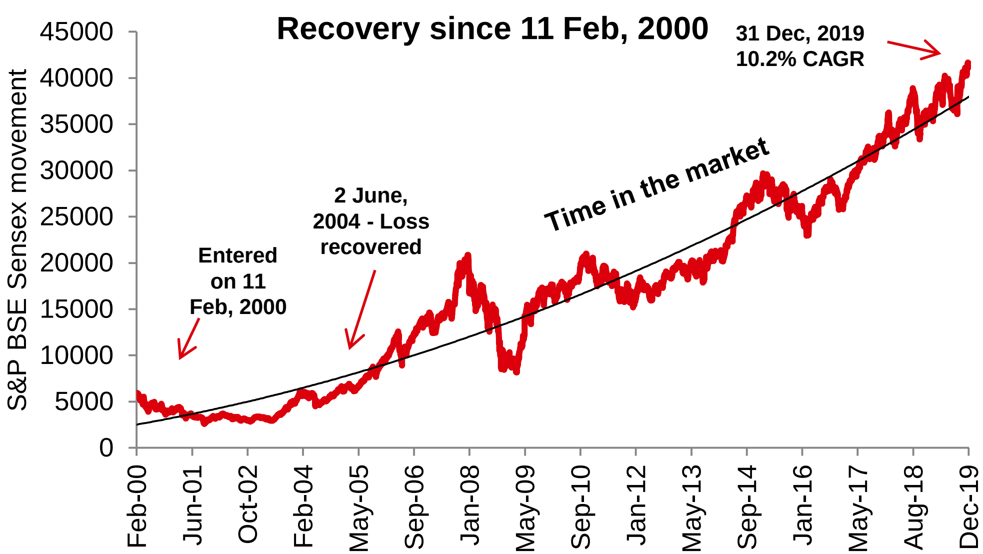
Source: BSE, CRISIL Research,

Investments are subject to market risk. Past performance may or may not sustain, past performance does not guarantee future performance.
Data as on December 31, 2019

If you invest for a far-off goal, you can ride out the downturn

History shows that market falls are followed by recovery in the medium term





Losses in equity are transitory – spend time in the market to earn better returns

Source: BSE, CRISIL Research

Notes:

Data as on Decemberr 2019

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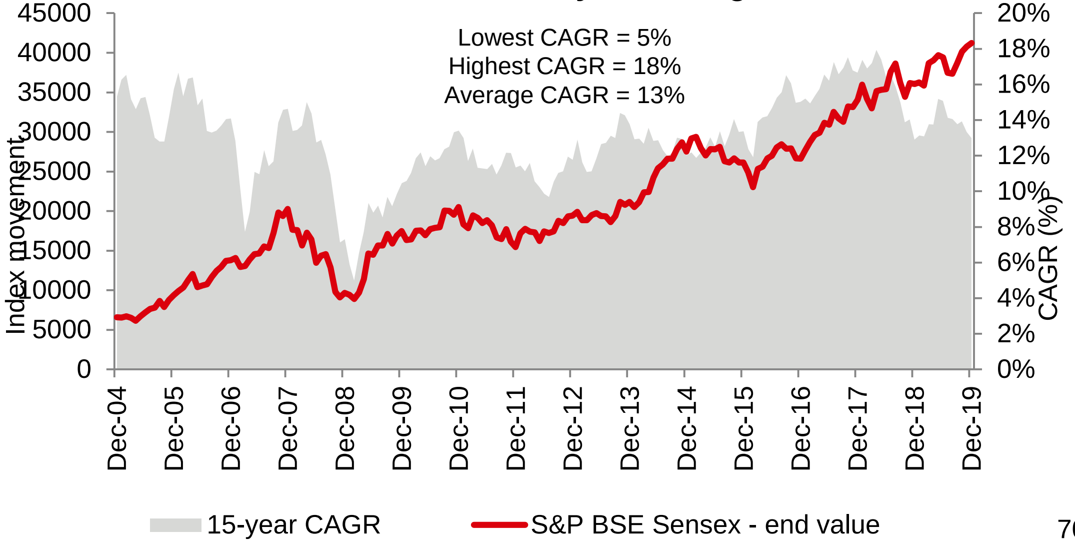
Making more by losing less

A consistent, predictable behaviour over a longer period

S&P BSE Sensex 15-year rolling returns

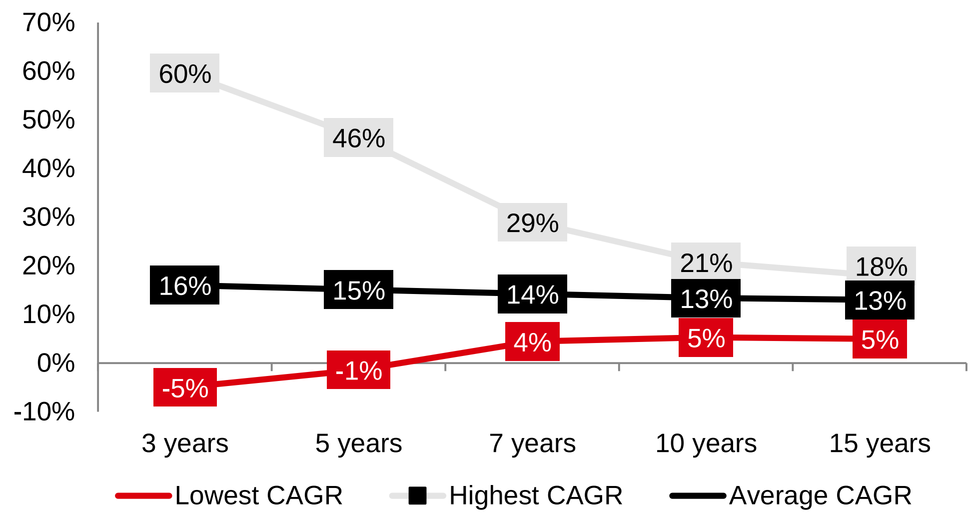


Period: Dec 2004 – Dec 2019; Returns frequency: Monthly rolling

100% positive 15-year returns

Difference between high and low returns reduces with increase in the holding period

S&P BSE Sensex rolling returns for different holding periods



Period: Dec 2004 – Dec 2019; Returns frequency: Monthly rolling

Source: BSE, CRISIL Research
Notes:
Data as of December 2019
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In a nutshell

Equity is a long-term capital growth solution

- The future is uncertain; prediction is risky
- Preserve and, if possible, grow capital in real terms over the long term
- Avoid permanent impairment of capital through risk-averse capital allocation
- Target out-performance only over a full cycle
- Invest systematically in equity over the long term to derive optimum results for your investments

Investments are subject to market risk. Past performance may or may not sustain, past performance does not guarantee the future performance.

"Someone is sitting in the shade today because someone planted a tree a long time ago" – Warren Buffett

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