

Equity – The Wealth Creator

Equity has never been looked at as a wealth creating asset class but has always been considered as speculative and risky. But this is a myth. **Investing in Stock Market is all about partnering with great businesses and owning them for a long term.** It is a volatile asset class which is indeed helpful as it creates opportunities. **Risk is not short term volatility but more importantly a long term erosion of capital.** Legendary investor Warren Buffett's portfolio, in last 50 years, has gone down more than 50% at least 3 times. Still his overall return CAGR is 21% and is the 3rd richest man on this planet.

SENSEX started in 1979 at 100 and now it is around 33000. This means it has multiplied 330 times in last 38 years or in other words it has given CAGR of 16.5%. Irony is that still majority of investors have not made money. The reason being **investors enter when market is euphoric and sell during panic.** In other words they enter at the top and sell at the bottom. The other reason for not making money is **they sell their winning stocks early and stay invested with the losing stocks.** Actually they need to cut the weeds and water the flowers.

Stock Market is a place where money is transferred from active investor to passive investor. **Successful investing requires Conviction (comes from knowledge), Courage and Patience (Temperament).** Lacking in any of the above three will not help. Always keep a check on your emotions while investing. **Investing should be more of common sense.** The products or brands that we use day in and day out and are aware of should be the starting point of investing. History shows that investing in such business has created immense wealth and money has multiplied multifold.

Investing is a game where older you get, wiser and competent you become. Every game has a shelf life which means that almost every sportsperson has a career of 10-15 years. In investing there is no such age bar. Warren Buffett has been playing this game for last 60-70 years now.

Take an idea and take it very seriously is the mantra for success. Power of Compounding is one such idea where one should take it very seriously. This is how Compounding works:

- 1) Save more
- 2) Have a long runway ahead
- 3) Rate of Return.

We have a control over first two i.e. save as much as possible of our income and give long time horizon for our investments to grow. This can be done by starting early. Managing rate of return is not in our control but we can certainly learn about it and enhance it. **Power of Compounding is the 8th wonder of the world as quoted by Albert Einstein.** If we can compound money at say 15%, then it becomes

5 times in 12 years

10 times in 16 years

50 times in 28 years

150 times in 36 years

200 times in 38 years

And 1000 times in 50 years.

Most people under-estimate what they can do in a long term and over-estimate what they can do in a short term. Actually it should be the other way round. One should focus more on long term strategies, compounding being the most integral part of it. One should become immensely rich by practicing this. Investing is simple but not easy.

One should never break their compounding machines. One should always try to invest as much in appreciating assets and should avoid buying depreciating assets. Debt is the biggest trap one should always avoid. Remember Simplicity and Truth has no maintenance cost whereas Luxury and Lies has maintenance cost. Practice frugality. Money is about freedom and not consumption. Finally embrace Delayed Gratification and dump Instant Gratification.