# The Road Less Travelled

Be wary of short-term gains in a bull market. Instead invest on fundamentals, says **Parag Parikh**

THERE is a common perception that long-term investors lose out in a bull market. This is because they often underperform the market when it rises sharply. So, is it time to bury long-term investing when markets are on fire? There are two ways of getting returns from the stock market. First, you invest looking at the fundamentals of a company, which is represented by the earnings and the dividends paid by the company. The second means is through trading or speculation, which is represented by the market valuation of these fundamentals.

For example, if the price of a stock is Rs 50, a trader may buy, if he believes that tomorrow the price would be Rs 60. Or he may sell, if he believes that the price is headed towards Rs 40. The first one is reliable and sustainable over the long run and the second one is risky and dangerous. Those looking for quick and short-term quick fixes usually adopt the second method. There is nothing wrong in trading or speculation, but the problem is that most people do not know the difference and under the guise of investing, they are actually speculating.

In the current boom scenario when the stock prices of practically all stocks are going up everyday, any layman could make money in the market. This has given a wrong sense of overconfidence that short-term trading or speculating is rewarding. This, in no way, suggests that long-term investing is not the right strategy to follow. On the contrary, it is a sustainable strategy.

Most people believe that the short-term strategy of trading and speculating is what is really working, and so they shun the long-term approach to investing. Short-term is all about timing the market, and in my experience, I doubt if anyone has been able to do it consistently with success.

I have seen so many long-term investors becoming wealthy irrespective of the market's upward/downward because they invest on fundamentals. They believe in the Law of the Farm. You cannot sow something today and reap tomorrow. A seed has to go through different seasons before it turns into a fully-grown tree. So is the case with investments. Why is it that one sees so many issues lined up? There is a good demand for equities, and these companies believe this is the right time to sell shares to the public and raise resources. Investors need to be aware that in current times the initial public offerings are priced at the market price with no great differential benefit. Moreover, investment bankers are appointed and paid by the company and hence their job is to get the maximum price for the company. Who pays this price? It's you, the investor. So be very careful when you madly rush for such investments without looking at the right fundamentals.

History shows that the IPO boom follows the bull run. Since the last three years, the market has been bullish and everyone who invested in initial public offerings made money. It will be wrong to assume that IPOs are sure-shot money spinners. If you are paying market prices, there are over 5000 stocks open to you. It was heartening to note the maturity of the retail investors in the just concluded follow-up offering of ICICI Bank. It got a fairly lukewarm response from the retail investors. Investors have realised that the bank is raising money twice in the last three years, and a 5% discount to the market price is no great an incentive during such volatility.

I would still maintain that the most fundamental reason for one to be invested in India is because of its tax efficiency. Long-term capital gains are zero, short-term capital gains tax is 10%, and dividends are tax-free. Over a period of time, equities would form a part of every Indian's portfolio. Be an investor and you will be rewarded.

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