

# Why is investing so confusing?

We get so involved in the nitty gritty that we miss out on the bigger picture

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Let us take the concept of investing. Why is it so confusing? Because it means different things to different people. What

most people call investing is not really investing.

Different people invest in different things:

- Some people invest in large families- a way to ensure care for parents in their old age.
- Some people invest in good education, job security and benefits.
- Some people invest in external assets like shares of companies, real estate, gold etc.

There are different "investment products" such as stocks, bonds, mutual funds, real estate, insurance, commodities, precious metals etc.

Each is designed to do something different and that is another reason why the subject of investing becomes more confus-

ing. And then there are different "investment procedures": These are nothing but a technique, method or a formula for buying, selling, trading or holding the investment products.

The following are the different investment procedures: Buy, hold and wait (long), buy and sell (trade), sell and then buy (short), options (trade), broking (trade no position) etc. Investors are classified by their procedures and their products.

You have a stock trader, a real estate speculator, collector of rare coins, commodity futures trader, a day trader, and a saver who is happy putting his money in a bank.

These are all examples of different type of investors who are known by their product specialties and the procedure adopted by them. All this adds to the confusion on the subject of investing because under the banner of investing we have people who are really gamblers, speculators, traders, savers, dreamers, and losers. Investing is confusing because it is a very large subject. If we look around us we will see that people have invested in many different things. Look at the appliances we use.

They are produced by companies where someone has invested in. The electricity we use is produced by a utility company where someone has invested in. Look at the car we drive, the soft drinks we consume, the clothes

## Home truths

**Different** people have different needs

**There** are investment vehicles for different needs

**Trading** is not the same as investing

we wear, the furniture, the airplane etc.

All these things are there because someone invested in the business that delivers these products. This is what investing is all about. Investing is a plan, not a product or a procedure. It is a very personal plan. The individual has to decide as to what are his goals and how he has to go from one level of comfort to the other level.

He needs to make a plan to go from a comfort level A to a higher comfort level B. One is able to earn when one is young. These earnings need to be invested wisely because when old age comes and the capacity to earn diminishes one can go back on the investments. This is only possible when one has made a plan for oneself and one invests according to the plan. Why do we find so many different types of cars and trucks?

Because different people have different needs. These vehicles are made to suit their needs. For a farmer in the village a Tata Sumo is more useful than a

sports car. Similarly, a family car like a Toyota Qualis is more suited for a large family than for a couple staying in the city.

Likewise in the investment world the investment products are called investment vehicles.

Different people have different needs and different investment goals and thus they use different investment vehicles. Let's say if one has a plan to go to a hotel in Delhi. He either takes a train or flies to the city. From there he either takes a rickshaw, a bus or a taxi to go to the hotel. In this plan he has a choice of so many vehicles he can choose from. He will decide the best choice suitable to him. Similarly when one has an Investment plan one chooses the investment vehicle according to one's needs and means.

We find so many people focusing on a product say stocks and then a procedure say trading but they do not have an investment plan in place. Most people are thus trying to make money by what they think is investing. But trading is not investing; it is a procedure or a technique. When people are not clear on their own personal investment plans, all these different products and procedures become overwhelming and confusing.

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