



# WHAT IS INVESTING

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A dear friend of mine is an extremely intelligent man, and he has the credentials to prove it. He has completed his engineering from IIT and also secured a Management degree from IIM. He is highly successful in his chosen career of marketing soaps and detergents at a multinational FMCG company. However, he is perennially worried about his financial status. This would surprise many. After all, many parents would consider him as a role model to be presented before their children, considering him as a living example of the “study hard, get a good job, and live happily ever after” story.

My friend not only believes in working hard but also playing hard. Consequently his expenses are over 95% of his income. Hence he is always on tenterhooks at the end of the month. He is now contemplating reducing his expenses and saving more money. I felt that this was a good move. “So what will you do with your Savings?” “I will look out for the safest possible avenue for parking my savings, maybe some Central Government Bonds or a Bank Fixed Deposit” was his reply. “Why not invest a part of your savings in instruments such as equity”, I asked. He looked at me incredulously. “Investing is not my cup of tea. After all, I am not an expert in investing”. Well, apparently he had failed to realise that purchasing bonds and opening fixed deposits was also “investing”. Also, although he was not an expert, no one will doubt that he possessed the intelligence to understand the basics of investing. His mental block was, however, preventing him from taking steps towards a more secure and stable future.

This really set me thinking. Was investing really as difficult as it was made out to be? Why is it that many gifted people balked at the word “investing” when they should actually welcome it because efficient investing is the only insurance premium against financial misery.

### Why is investing so confusing ?

We get so involved in the nitty gritty of things that we miss out on the simple bigger picture. Let us take the concept of “Investing”. Why is investing so confusing and misunderstood? At the outset, the most common misconception people have is that the term “investing” only involves investing of money.

People fail to realise that they are indulging in investing at every stage in their life. Also, what most people call investing is not really investing. People are all talking about different things yet they often think that they are talking about the same thing.

A few categories of “investing” include :

#### 1. Having a large family.

This may seem strange, but many people, (especially from the poorer strata of society) believe that more bodies mean more income for the family and hence having a large family makes economic sense. In more well-off sections also, couples believe in having more children in the hope that at least one of them may take care of them in their old age.

#### 2. Education

This is certainly an investment. Some recognise it as such, while others are ignorant about it. It involves outlays of time and money. People spend nearly two decades of their life in the pursuit of formal education in the hope that this will aid in securing the rest of their lives.

While its importance (especially amongst the middle class) cannot be underestimated, people must be clear that education is only a tool which will aid in securing your future and not an end in itself.

#### 3. Investment in assets

Many people invest in hard assets such as gold, silver, real estate, as well as in financial assets like equity shares and bonds. This is also the most widely accepted definition of investing.

There are different “**Investment Products**” like 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 confusing.

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:

1. Buy, hold and wait (Going long),
2. Buy and sell (Trading),
3. Sell and then buy (Short Selling),
4. Options (Trading),
5. Broking (No personal trading positions, but investing in the business) 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

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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 also confusing because it is a very vast 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 in which 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 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 also a very personal plan. The individual has to decide as to what his goals are 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. However, rarely do youngsters know or realise that these earnings need to be invested wisely because when old age comes and the capacity to earn diminishes, it is only your investments which will provide you with income as well as a degree of independence. You need not rely on your children, the Government or society to take care of you. 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.

To digress a bit, why do we find so many different types of cars and trucks? Simply because different people have different needs. These vehicles are made to suit their needs. For instance, a farmer in the village will be more pleased to receive a Tata Sumo rather than a Ferrari as a gift. 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 New 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 then decide upon the 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. Many of them merely mirror the purchases of their trusted associates without undertaking any due diligence. Whenever the inevitable losses occur, they will blame the investing process, even though they have never undertaken it in the first place.

I would again reiterate that trading is not investing; it is a procedure or a technique. When people are not clear as regards their own personal investment plans, all these different products and procedures become overwhelming and confusing.

Next time when you see your favourite TV show on "Investments" I hope you will be able to discern between the essential stuff and the mindless drivel.

Do not be carried away by investment tips but start making your investment plan. It is the discipline of an Investment Plan that will make you wealthy.

Finally, proper investing, though important, is only one of the tools required for achieving financial freedom. Today there are many adequately qualified Certified Financial Planners in the country and I have suggested to my friend that he visit one of them in order to receive holistic financial advice. As the adage goes, "Better late than never".

*An idealist believes the short run doesn't count.*

*A cynic believes the long run doesn't matter.*

*A realist believes that what is done or left undone in the short run determines the long run.*

- Sydney J. Harris

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