DSP MUTUAL FUND

From the storm to some calm

Ever heard of a billionaire becoming a pauper?

That was the unfortunate fate of Jesse Livermore, believed to be one of the greatest traders of all time, who made and lost a massive fortune in the early decades of the 20th century.

Livermore was an expert at using what's now called technical analysis to predict the price movements of stocks. By 1907, his net worth was $3 million (roughly $96 million in today's dollars).

In early 1929, he took on short positions that were so large that he had to use more than 100 stockbrokers to keep things under wraps. And when the Wall Street Crash of 1929 descended upon the markets, Livermore made around $100 million, which would be worth around $1.5 billion today!

And yet, by 1934, Livermore was bankrupt!

There are many mysteries and questions surrounding the loss of his fortune, but it's been speculated (no pun intended!) that he failed to consistently adhere to the trading rules he'd set for himself, probably due to a failure to keep his emotions in check.

And who can blame him? Can you imagine what it must do to your mind to gain and lose millions of dollars on a regular basis?

Know what happens to a rubber band when it's stretched and slackened again and again? Eventually, it snaps.

But here's the funny thing. Even if it's not a million dollars but just a few thousand rupees that are at stake, investors still have trouble keeping their emotions out of the equation.

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The emotional toll of investing

I've been an investor and market-watcher for a long time, and also regularly advise friends and family on where to put their money. And as you might imagine, all this experience has changed my perception: now, whenever I spot a person logged into their investing platform (and sometimes even when I catch a glimpse of my own reflection on my laptop screen), what I see is this:

Now, I don't mean to say that the people I associate with aren't smart: some of them are so freakishly smart they're likely to be presented as the best of humanity to any aliens we might make contact with. What I'm saying instead is that despite all those smarts, they're just as vulnerable to unconscious biases and emotions as any other primate.

The scariest part, of course, is that individual investors are typically not even aware that the real driver of their investment decisions is their emotions, as opposed to facts and reason. And since such emotion-based decisions are often unwise, they can end up being the trigger for a whole rollercoaster of negative emotions!

So how's an ordinary retail investor supposed to prevent this vicious circle from taking over their emotional life? Well, the answer's simple, and I've talked about this many times before: you need to delegate the handling of your portfolio to trusted experts. This will typically do wonders not only for your mental well-being, but for your financial well-being as well.

Not really sold on this idea? In that case, let me marshal some numbers in support of my case.

A 2021 survey indicated that a significant proportion of millennial and Gen-Z investors have regretted impulsive/emotional investment decisions, have traded while drunk (!), have been unable to fall asleep due to investment-related worries, and have cried due to the stress of investing.

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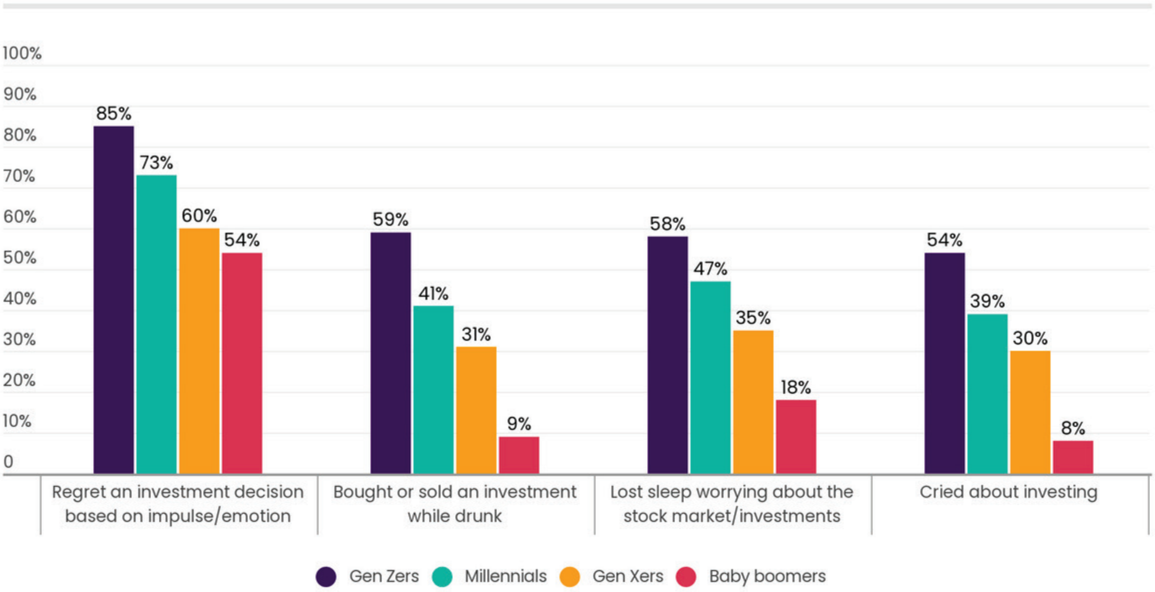

Source: MagnifyMoney survey of 1,116 consumers with an investment account, conducted June 24-29, 2021.

Which is why, I now always recommend engaging with your prime relationship manager. Earlier I would say this makes sense for relatively new investors, but having experienced the highs, the lows and countless pieces of retrospective evidence of my own stupidity, I think having a relationship manager guide you throughout your MF investing journey makes sense for experienced investors even more. You may have better insight than earlier, but you simply won't have the time to constantly overlook and modify your portfolios as needed as you progress more in life and your investments become larger.

Protect your peace of mind

Going back to my mid-20s, I also thought I was an investing hotshot, like most of my friends at the time. In retrospect, the truth was that I was investing in stocks based mostly on Reddit threads, Twitter nonsense, half-baked hypotheses, and a generous helping of daily prayers to the market gods.

I continued that 'style' of investing for a few years, but it all came to my head one night when I started murmuring about one of my stocks having crashed, in my sleep. I was a married man by then, and my wife put her foot down and gave me an ultimatum. "Find a less stressful way to invest, stop investing altogether, or find a new house and family to cause suffering to"!

Tough love? It worked. I eventually ended up choosing to go big on mutual funds, with less than a handful of stocks in my portfolio. And doing this has protected me from what this guy below is talking about! 😇

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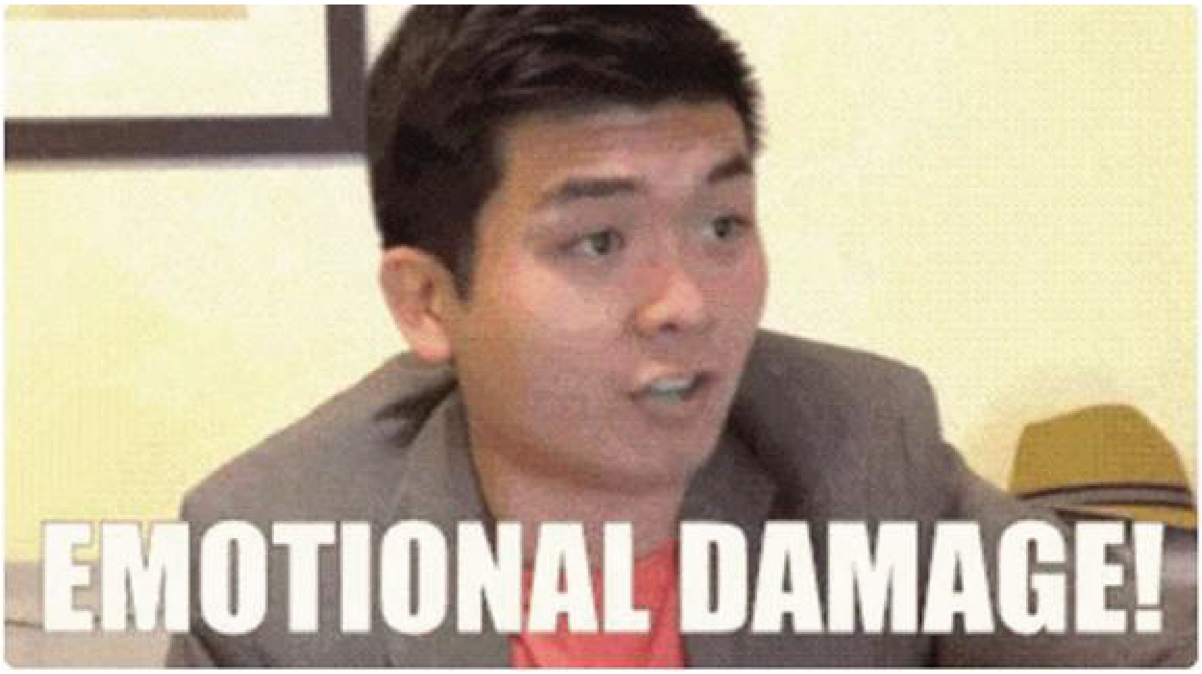

So don't let the vagaries of the markets impact your mind or your personal life. By investing in robust mutual funds run by reputed AMCs, you can improve your chances of building wealth and earning better returns by making sure that the more chimp-y part of your mind can't mess things up.

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