Importance of Equities

Equity has always been known as wealth creators but at the same time are wealth destructors too.

Normally the earning life of people is 25-60. i.e 35 years.

Now Debt Investments like FDs, Debt MFs, bonds etc give you a return between 5-8% depending on the tax bracket you are in.

The sensex which is the benchmark of the top 30 companies in India has delivered a double digit return of 12% annually. A majority of Equity funds have beaten it with a return of 15% on an average.

That means in your earning lifetime i.e 35 years, if you invest your money in Fixed Income it will double your principal every 12 yrs.

Which is to say:

25- you invest Rs- 1

37- it becomes 2

49- it becomes 4

61- it becomes 8 and you retire

In equities

25- you invest Rs/- 1

30- it becomes 2

35- it becomes 4

40- it becomes 8

45- it becomes 16

50- it becomes 32

55- it becomes 64

60- it becomes 128

which is 16 times greater than 8.

Considering a worst case scenario, you will still settle far above 8.

What is risk? Interim volatility OR retiring with a kitty 15 times less?

T H I N K ?

Romance with FD but marry with equity

Imagine you are moving at 10 km per hour and your friend is moving at 11 km per hour.

After 6 minutes they are only 100 m (1/10th of 1km) apart which is not very significant. You can literally see each other.

After an hour you are 1 km apart. You can no longer see each other but still you aren't all that far from each other. If you wish you can meet each other easily.

But after 10 hours you are 10 km apart and after 100 hours you are 100 km apart.

Now you are in two different cities. It’s too far to meet each other. Perhaps you have to speak over phone.

Likewise investing in a fixed deposit of 6% per annum or investing in a equity with a CAGR of 10-15% per annum does not make a huge difference when invested for a period of 1 year or even for that matter for a period of 2 years.

However, if you were to invest for a period of 10 years to 15 years, the 4-9% difference will become nearly 100-200%.

Hope this explains why even a 4-9% difference in returns cannot be ignored in the long term and moreover why Equities is a more appropriate asset for long term to invest than a Fixed Deposit.

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