DEMYSTIFYING THE STOCK MARKET

IN AN INTERVIEW WITH R. ROSHAN, THE HEAD OF BUSINESS DESK AT MATHRUBHUMI AND ALSO THE AUTHOR OF A SCHOLARLY BOOK ON INVESTMENTS IN STOCKS, WE TRY TO COMPREHEND THE MECHANICS OF THE MARKET

Text: Varun Kannan Photos: Various Sources

Roshan R is a veteran with over ten years of experience of monitoring the bulls and bears in the market. As the head of Business desk at Mathrubhumi, one of the leading dailies in Malayalam, Roshan is always in the midst in of business, literally and otherwise. With his book published by DC Books titled "Ohari Nikshepam Ariyendethellam"- "Stock investments everything you ought to know", Roshan expels many myths surrounding the stock markets and clears the air with his expert ideas. In an interview with FWD Business, He elaborates on the book and investment practices in the country in toto.

How did the idea of authoring a book on stock investment hit you? Do you think there is something that is fundamentally wrong in our approach towards it?

Reliable statistics tells us that less than 2 percent of the total Indian population invests in stocks, whereas, in countries like the USA, the percentage is much higher. This is a worrying statistics as there are more chances for wealth creation in stocks as compared to the more favored modes of investments in the country like real estate, gold or banks. Apart from this reluctance, there is also a misunderstanding in the way people perceive stocks. One should view investment in stocks as an investment in that company. In essence, building a company like Reliance Power right from scratch is not everyone's cup of tea. This is where stocks in turn present the investor an opportunity to be a part of companies easily. This book

intends to give investors a clearer understanding on stock investments.

But stock investment is generally seen as something of a gamble involving a lot of speculation. How have these myths been perpetuated? Are you trying to break theses myths in the book?

Absolutely, these are myths perpetuated by people who have ventured into stock investments with zero know-how, trying to make a quick buck. With the intention of making a quick kill that start of trading and incur some heavy losses. Once they incur losses, they wind up their Demat accounts, badmouth the stock market and the turn skeptics who propagate the idea that investment in stocks is some sort of a speculation game. Yes, I am definitely trying to clear the air with my book. Stock investment, like I said earlier can be the best way for wealth creation if done well, that is.

What are the good investment practices that you prescribe?

There are many rules to investment in stocks that has been elucidated in the book. If these rules are promptly followed, I believe that you would fetch you great returns on your investments. The major rule is to identify the companies to invest in, companies that have promoters with strong backgrounds and market goodwill. The golden rule of long-term investment has fetched great returns for investors, So that is another thing that I advocate in the book. To find the right companies and invest in them for a period of say five to eight years, is what I consider a healthy practice. As important as buying stocks is selling. Adjusting the stop losses with varying prices and selling them off as targets are reached. These are certain ground rules that have to be followed.

The book takes a very systematic approach dwelling on each of these rules elaborately.

Even the educated class are intimidated by the technicalities involved in stocks and hence stay away from them, how does the book address this issue?

Yes, the technicalities and the so-called volatility of stock markets turn away a lot of prospective investors. The book breaks down the technicalities for you. If someone is not comfortable investing in shares and has absolutely no understanding on the working of shares then I suggest they invest in the mutual funds. An entire chapter in the book divulges on mutual funds where I talk about the Systematic Investment Plan (SIP) and identifying the best performing mutual funds.

> THE MAJOR RULE IS TO IDENTIFY THE COMPANIES TO INVEST IN, COMPANIES THAT HAVE PROMOTERS WITH STRONG BACKGROUNDS AND MARKET-GOODWILL.

What are the tax-benefits that investment in shares and mutual funds bring?

Yes, investments in mutual funds give you tax exemption under Income tax section 80 under the ELSS (Equity Linked Savings Scheme). Rajiv Gandhi Equity Savings Scheme exempts first-time investors in shares. The book goes through all these in detail.

We have heard of fortunes made out of investing in companies at a very early stage. What is the rule to identifying the best companies as they go for their IPOs or at a very initial stage?
A thorough check on the promoters and the goodwill that they have, the revenues of the company and the prospects that future holds for the company are the parameters that you should be scrupulously checking about before you make any investments. As a rule, do not invest in companies that sell at a much higher price than their evaluation. One could also rely on reviews by credible organizations to decide the right stocks to invest in.

Timing your stocks to buy at the lowest and sell at the highest. Is that possible?
Even Warren Buffet would be incapable of that. It is a must to understand that market is driven by a number of forces and setting impractical targets wouldn't help.

Investment in Gold is generally considered safe and as one that would fetch you good returns. Can't gold be a stronger investment than stocks?
There are trends in all sectors. Gold rates have seen an unbroken upward graph in the last 7-8 years. But the law of bubble ensures that for every abnormal rise, a correction happens sooner or later. People look at gold as a safe haven during periods of inflation or recession or politically sensitive times like a war. But in India and more so in Kerala, people tend to buy ornaments and not gold coins. What is not observed is the fact that ornaments have making charges of 20-30 percent. Ignorantly, most households in Kerala buy and sell ornaments and think they are making fine investments. Factors like greed and fear end. Fear causes prices to go below the actual value.

How has the general response to the book been?
The response to the book has been great. While there are numerous books on investment and stocks, most of them are confusing to readers as they talk about Futures and Derivatives. This is like giving lessons on the working of the Internal Combustion engine to someone who wants to learn to drive. The only lessons that he has to be given are on shifting the gears, learn to use the clutch, brake, and accelerator and also steer the vehicle. This is exactly what my book does. It does not confuse the readers with an overload of information. As far as the working of the engine is considered. A savvy learner would learn it in the due course of time. That was the idea too when I started off the book , impart ideas to make a person a successful investor and not confuse him in the process him. What I also found interesting was that people who found the book interesting were not just new people venturing out into stocks but also those investors who had a bad experience with stocks earlier. I have had many calling me up to tell me that the book has demystified the market in many ways.

What are the major Do-not's of investing in stocks?
The first rule is for the novices who have zero idea about stocks and do not have the time or will to learn about them. This group should not venture out into stocks directly. It is advisable to go for Mutual funds instead. The second rule would be not investing cash that would be necessary for your immediate needs into the stock market and not investing money on credit into stocks. Stocks should always be viewed as long-term deposits and not as a quick buck.

Are you advocating the position that stocks are the best investments that one could ever make?
In many ways, yes. In spite of the Predictability and respectability involved in bank deposits, it has the limitation of not being able to transcend the bank rates set by RBI. Investment in real estate requires bulk amounts and liquefaction can always a problem. Gold is a good investment in many ways but only 10-15 percent in your portfolio should be in golds. The percentage in stocks can go up to 50- 60 percent that is if you follow the ground rules. Let us not forget that among the global millionaires there is a Warren Buffet who makes his money solely on investment in stocks but yes investment in stock warrants an entrepreneurial spirit ■