

Investing Lessons from Sports

This edition is dedicated to the entire sports fraternity and the indomitable spirit of all the sports persons/athletes contesting in Tokyo Olympics 2020. We salute all of them for their exceptional grit, hard work and the never say die spirit.

Interesting parallels between the world of sports and investing:

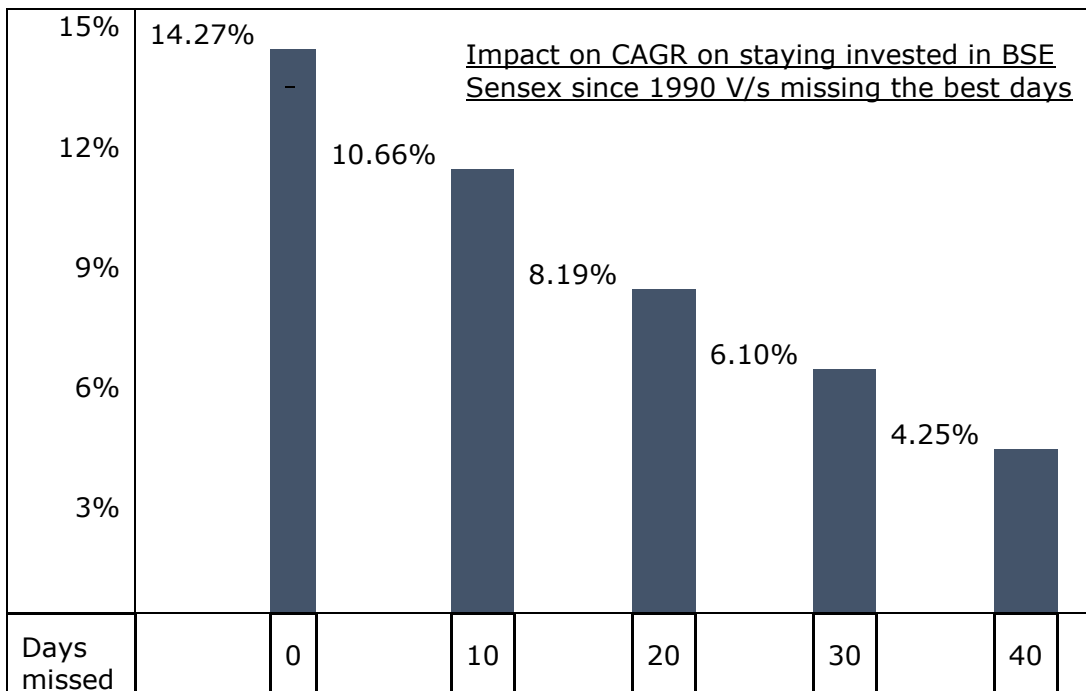
Do not give up in the wake of adversity, no substitute for emotional strength

Setbacks and injuries are common for every sportsperson. However, the mark of true champions is to never give up even during toughest of times and emerge victorious. Any sportsperson will vouch for the fact that mental strength is as important as physical strength.

An investor is constantly subjected to a lot of noise in financial markets. But keeping emotions in check and not giving up is imperative. An investor reacting in a knee jerk manner can throw the best of financial plans into disarray.

Investors who exit equities at sudden fluctuations and wait on the side-lines for the perfect time to invest, usually miss the bus. Ability to accept disappointment in the short run is necessary to have a fruitful investing journey in the long run.

The CAGR of Sensex since January 1 1990 till now is 14.27%. Out of the total time period of 7,596 days, missing only 10, 20, 30 or 40 best days doesn't sound much but the graph below demonstrates the impact.



Starting early makes a world of difference

An Olympic medal winner in 2020 Tokyo Olympics has undoubtedly started his preparations at least a decade ago! Likewise, as an investor, starting early makes a world of difference to your investment corpus.

See below how you need to invest higher as you delay the start and how it costs you in long term:

	Start @25 yrs	Start @35 yrs	Start @45 yrs
Investment per month	5000	7000	11667
Total Investment upto 60 yrs	21L	21L	21L
Retirement corpus @60 yrs	3.21 Cr	1.21 Cr	0.58 Cr
Delay of 10 yrs reduces your corpus by	NA	59%	56%

Small Differences with Big Consequences!

A missed catch or a minor instance of mis-fielding or even a quick single taken or not taken in a cricket match can prove crucial and change the end result.

Even a difference of 2% per year might not seem much in 1 year but can make a huge difference when compounded over the long term. 1 lakh invested at 9% for 35 years (typical working period of an individual) becomes 20.4 lakh but just 2% higher every year (11%), takes it to 38.6 lakh... almost double!!! In this example the 2% additional return is as important as the tenure of investment.

Both these attributes (seemingly small differences in annual returns and giving a long time to your investments) would finally decide the fate of your investments as well. Small differences have big consequences. So, we need to choose our investment instruments very carefully. Invest in equities, start early and stay invested patiently for a long term.

Right guidance can do wonders

Can you name a sport where a coach/mentor is not required? Think hard!! Can't think of any? While there may be some athletes who are innately more talented than others, they still require a coach/mentor. Just like a sportsperson's coach, a financial advisor can play a pivotal role in the pursuit of wealth creation. A trusted financial advisor can help devise a financial plan as per investor's unique circumstances and financial goals. The advisor can hand hold the investor during challenging times and guide him in the right direction.