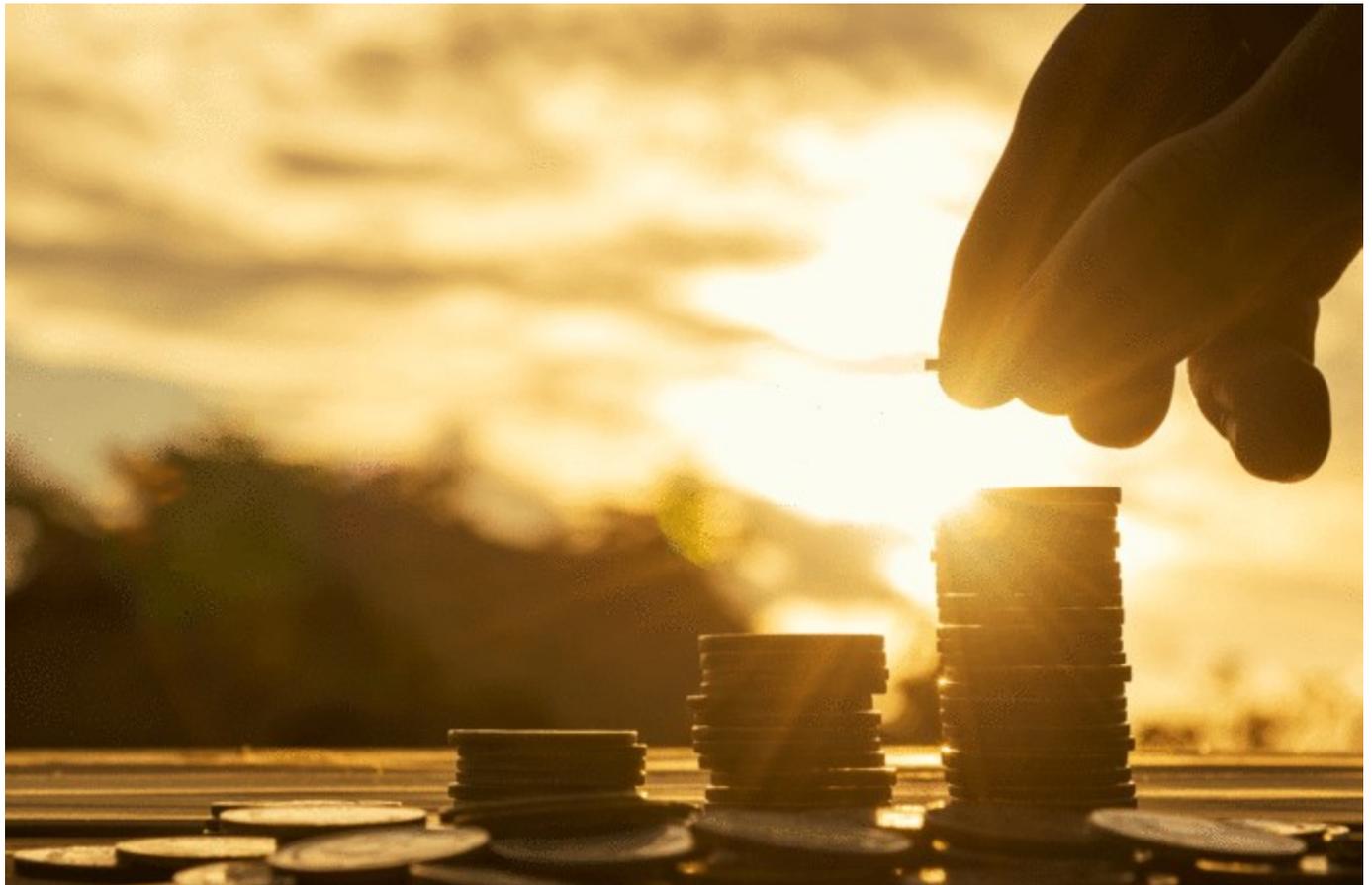


# Is it all really nonsense?

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Watching the money growBIGSTOCK

## Is the stock market a ‘nonsense’ investment option?

Caution: Technical analysts, active fund managers, and informed brokers with “money doubling expertise” are requested to not concern themselves with the content of this article.

This article is targetted towards investors who expect to generate a “steady” return above the net yield of existing saving instruments.

Last month, I met a relative of mine who retired a few years ago after serving his organisation for 30 years. Such a hard-working person he was throughout his career that he never deemed it necessary to plan for life after retirement. When he retired with a handsome amount of money (as per his evaluation), he thought he would be “just” fine for the rest of his life.

But what he estimated to be “handsome” at that moment (only five years ago) soon became barely enough to keep up with the rising living cost of Dhaka.

He decided to reach out to me thinking I would be able to suggest to him a few investment alternatives, as I have been working in the investment management industry for the last 10 years.

The first question that came to my mind was: “Why now?”

I asked him what had changed in the past five years that made him feel that his retirement savings were insufficient.

And that is when he started to rant. From falling deposit rates and escalating tuition fees of his children — he gave me about 10 reasons responsible for his lower income with higher expenses.

And, out of the entire conversation, I could pick on only one word: “Nonsense.”

The retirement plans, education system, traffic, inflation — every single thing in this country seemed nonsensical to him and, to my surprise, he considers himself a nonsensical person too for not being a better assessor of the future.

I was trying to comprehend his anger and frustration as well as think quickly about what could be his best investment options, which would provide a sustainable cash flow to him. Based on my expertise and experience, I suggested a few names that he might consider for investment, and his reply was: “Your stock market is a ‘nonsense’ place to invest in.”

When I asked him why he thought so, he gave me a few reasons which prompted me to address those misconceptions.

## **All an investor needs to do is to stay patient with his/her investment, given the company he/she is selecting has solid fundamentals and is not trading at an overvalued price**

### **Myth 1: Networking skills are everything; you need to know the right people to make money**

Well, if you are an active participant in this market, you must have heard this statement at least a few dozen times already. And if you are new, I can personally guarantee that you are about to receive this piece of “advice” from your broker very soon.

And to reinforce their case, they might even show you the recent price performance of a few stocks with relatively weaker business performance and corporate governance. “*Kom daami share kinen, return hobe beshi*” — you are going to hear these exact words from many of the so-called experts.

One thing that these “experts” always forget to mention is that one could have generated a higher return by investing in blue-chip names that have significantly stronger fundamentals and a lower risk than that of these poor-fundamental stocks.

For instance, if you bought the entire market on the first trading day of 2009 and held your portfolio until today, the return would have been only 104% against the blue-chip index return of 456%.

If you had taken a position in fundamentally strong names even at the historical peak of the index (December 5, 2010), your return would have been more than sufficient (given your return expectations are not insane).

### **Myth 2: You have to actively monitor your portfolio to protect your capital/to generate a healthy return**

This is another popular myth among retail investors who either restrict themselves from investing or compel themselves to visit brokerage houses on a daily basis.

Make no mistake, there are multiple short-term trading strategies which skilled traders and quant specialists can implement efficiently. However, an average investor, who does not have the technical expertise, will never be able to use these tools to make money consistently.

All an investor needs to do is to stay patient with his/her investment, given the company he/she is selecting has solid fundamentals and is not trading at an overvalued price. However, identifying winning stocks or evaluating the investment merit of a business is not the job of a common person.

I had a three-hour quality conversation on what can be my uncle's best investment options and how he should allocate/utilise his assets, especially at a time when things are changing at a fast pace. Having imparted my hard-earned knowledge on security selection and asset allocation to him, I felt quite complacent.

Meanwhile, my five-year-old daughter entered the room and started watching her favourite YouTube channel on her iPad. After observing her attention towards the screen, being completely oblivious to everything else in the room, he asked me one last question:

“Son, throughout my life, I tried my best to live a minimalistic life even though I was lucky enough to inherit some wealth from my parents. And look where I am right now — seeking advice from you so that I can live without worry for the next 10 years.

“I just wonder what would happen to your generation who has an insatiable ‘necessity’ of consuming things. Our philosophy of ‘plain living, high thinking’ seems long gone now and I do not understand how your generation, with no wealth and savings of their own, can spend what they have not really earned. Have you ever given any thought to where your generation will be when they reach my age?”

Perplexed, I kept thinking — am I living a nonsensical life too?

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