

**Title: The Dumb and the Dumbest in Stock Markets**

**Region: India    Date: 19th January 2010    No of Pages: 3**

As investors in stock markets, all of us do have dreams. But what are dreams? Dreams are something which you only get when you are sleeping or when you are in a semi conscious state. Usually one dreams something which he or she feels as unachievable in a conscious or normal state. And a conscious investors dream remains “Buying at the lowest level of stock markets and selling at the highest level“. Well is it doable? In theory, yes. Can you get the moon in your drawing room? Yes, if your drawing room can be taken into the skies. It’s my humble opinion that” Buy Lowest and Sell Highest” can be done if there are only two players in the whole of market. One of them is you on buy side and other is your father in law.

In investment jargon Buying lowest and Selling Highest is also known as the “Timing the Market” and this has got nothing to do with the recent advancing of timing of the opening bell of the Indian stock markets to 9.00 am. One needs tremendous amount of sense of timing and experience to time the markets consistently. All my life in investments I have never been a great “timer “of the markets, may be since I could never comprehend charts, technical analysis etc. Candlesticks and Hanging Man were like always Greek to me. And God save Greece from the ongoing deficit crisis.

Did I lose in the last 19 years that I have been investing regularly in stock markets, but not being able to time it by buying at the lowest price ( Sensex)? Well I did lose vis vis Mr Utopia. Yes we have with us one Mr Utopia, who has been very successful timer of the markets for last 19 years, when I started some serious investing. He manages to buy at the rock bottom index year after year. He must be the God for all traders in the world. I wished I could have met Mr Utopia 19 years ago. I could have made more money than what I have made now, by investing at the bottom of the markets every year, including the year of 2009.

Well, how much money did I lose since last 19 years by not being Mr Utopia? Let’s see.

Lets assume that I am the most dumbest of the timers in the markets. And how will you define dumbest in this context? I bought stocks comprising the BSE SENSEX worth say Rs 1,000 every year at the peak of the market in that year. For instance if the high of Sensex in 2008 is say 21,000, I bought a basket of SENSEX stocks worth Rs 1,000 in 2008 at 21,000 Sensex levels. Let’s assume that I continued to be dumber in every year in last 19 years and bought the basket of SENSEX stocks worth Rs 1,000 every year at the peak of that year. No investor can be dumber than this. After 19 years of investing, at the end of year 2009 ( Sensex at 17,465), I had Sensex stocks worth around Rs 63,582. Not bad at all. I punched the numbers into my excel spreadsheet and was shocked to see the results of my dumb actions. I made returns (CAGR) of some where around 12.02% pa in that last 19 years. And that too by being dumb to buy at peaks.

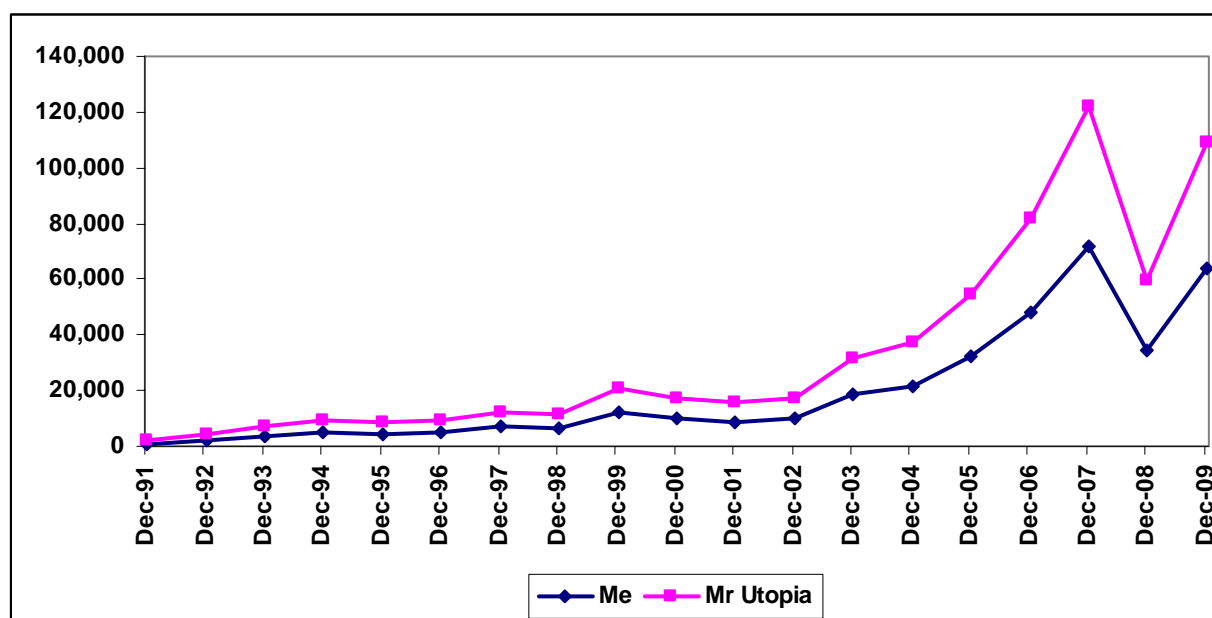
I was excited about these results. Dumb people make around 12% CAGR in Indian Stock markets? What’s going on? What’s all this? If dumb people make this what would Mr Utopia make? Let’s go over to Mr Utopia’s numbers and punch it in the same worksheet.

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As we all know Mr Utopia is a perfect market timer. Buy at the lowest is his mantra. The God. Just like I did, he also invested Rs 1,000 every year for the last 19 years. But there is one minor difference. He invested at the bottom of the index in that year for last 19 years, exactly opposite of what I did. What a superlative performance. I punched in Mr Utopia's numbers into my excel spreadsheet right next to my dumb numbers. The numbers once again shocked me. The Utopians had a market value of stocks at around Rs 1,09,422 by end of 2009, a CAGR of around 16.93% pa since last 19 years. He made just 5% pa more than me every year. I was expecting much more from the Utopian Gods.

**Chart I: Me v/s Mr Utopia for last 19 years**



Source : Delta Global Partners Research & [www.bseindia.com](http://www.bseindia.com)

Notes : Rs 1000 invested every year at maximum for Me and minimum for Mr Utopia in Sensex Stocks in that year. Market Value in INR on X axis.

And what did Mr Utopia have that I did not for that extra 5%? May be lot of hard work, lot of analytical resources, lot of stress, lot of time, lot of charts and lot of everything else, including lady luck. Mr Utopia was full time trader in stock markets. I did not possess any of the above "lot" nor was I full time "bottom fishing" in stock markets. But for 12 years from 1991-2002, I was running almost neck to neck with Mr Utopia. And all his hard work for those 12 years was of no use. It's only after 2002, that he did overtake me, as the Indian stock markets entered into its longest bull cycle. Who knows, in the next decade I can catch up with him even if the markets consolidate and don't rise much.

But I have nothing to lose. I could not be dumber than investing at the peak of the markets every year. There was no downside for me. With little more luck I could have easily improved on my returns of around 12% pa if I had bought the Sensex stocks at anywhere lower than the peak of the markets in say some of the past 19 years. In other

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words if I had become little less dumber. But in coming years, Mr Utopia has neither chance of failing nor any chance of improving on his performance. To improve his performance he has to do the impossible task of buying lower than the bottom of the year and in every year consistently. For Mr Utopia to continue his sterling performance, he has to continue buying at the lowest of the year and in every year thereafter. There is no room for error.

But for me I can narrow the gap between my & Mr Utopia's returns if I manage to buy at lower than the peak even in some of the next few years. And that too without the "lot" of resources and "time" that Mr Utopia gives to his full time occupation of being a "timer" in the stock markets.

You need to be only dumb by buying at peaks every year to make decent returns in stock markets, which may not be as high as Mr Utopia. But if you are less dumber, you come closer to his returns even with few good years of buying say at the average or anything lower than the peak of the stock market levels in that year.

So we will be more than the dumbest if we can't invest every year regularly in stock markets even at highest levels in that year to get some decent returns in long run with no hard work at all. And with a little more efforts & homework you can try & come closer to Mr. Utopia's returns. Invest regularly irrespective of the market levels or valuations, even though everyone can't be Mr Utopia, but you can earn decent returns from markets. Since the key to wealth creation is increasing the time span for which you have been investing and not the "timing" of it.

**Devendra Nevgi**  
**[deven@dgp.co.in](mailto:deven@dgp.co.in)**  
**Tel: + 91 9867 277 977**

**Delta Global Partners**  
**Founder & Principal Partner**

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