



## Raison d'être of Equity investing

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**Ajit Menon**  
CEO

Dear Investors and Partners,

As the world wakes up to challenges that a new variant of the coronavirus poses, the global equity markets has seen some amount of pullback and volatility has risen in the past few weeks. Let me begin this edition of the letter by quoting Bill Gates : *"We always over estimate the change that will occur in the next two years and under estimate the change that will occur in the next ten"*.

Change and innovation as we know are the only constant and the above quote captures human behaviour and reaction towards this change and innovation perfectly. As in most other areas of our lives, in personal finance too, our behaviour is often dictated more by what's happening in the here and now. It is normal to panic and make changes to the set plan in the face of a new threat or crisis, like the Omicron variant that we are dealing with now. In these situations, I am also reminded of the other famous quote *"Be greedy when others are fearful...."* By Warren Buffett. However, for an average investor it takes more than knowing a popular quote to do the right thing. Human behaviour can be irrational at times and thus an average investor should get all the professional help that he/she can possibly get, especially during these times.

Talking about human behaviour, there is an established term Behavioural Finance known as Recency Bias. It refers to the human tendency to favour and give more importance to recent events over historic ones. Within investing parlance, this could mean that an investor can be very optimistic in a bullish market and can continue to ignore any red flags that may appear and vice versa, and thus can be said to be ruled more by emotions.

The reason I am referring to long term innovation which it seems, is generally under-estimated and recency bias, in the same article, is to highlight the fact that our objective of long term wealth creation is incumbent on our ability to truly appreciate the essence of equity investing.

If you think about it, equity is the only asset class which captures the benefit from long-term innovation, of human ingenuity and progress. We all know about the power of compounding and how equities can help in creating wealth over the long term because returns can compound over a period and grow exponentially in the later years. Morgan Housel talks about how innovation compounds in his latest blog piece. The example he highlights is that of Thomas Edison. He was not the 'inventor' of the light bulb, but greatly improved upon the existing technology at that time. The first prototype of an electric light was made in 1802 itself, by a British inventor named Humphry Davy. However, it was impractically bright. Many small innovations along the way compounded and finally led to the 'discovery' of the lightbulb the way we know it today. We are witness to such extraordinary innovations but don't realize it till the final product is before us.

As an equity investor, what one should essentially aim for at the very least therefore is to have a good portfolio of companies that are competing well in their categories with innovation in products, services, business models that help compound their profits. A well-diversified domestic equity portfolio combined with a globally diversified mutual fund portfolio can help to capture such long-term, compounding innovation both in India and abroad.

We at PGIM India have two very special offerings which capture these themes, in the form of PGIM India Flexicap Fund and PGIM India Global Equity Opportunities Fund.


As the world deals with the new variant, please do take every precaution and follow all protocols. As far as your investments are concerned, as mentioned earlier, getting professional help to build a portfolio and asset allocation unique to your goals is always our best recommendation.

Stay safe & happy investing.

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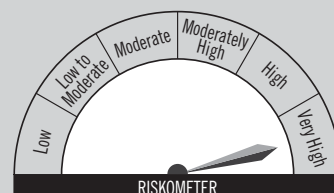
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- Capital appreciation over long term
- To generate income and capital appreciation by predominantly investing in an actively managed diversified portfolio of equity and equity related instruments including derivatives.
- Degree of risk – VERY HIGH

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- Capital growth over the long term
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- Degree of risk – VERY HIGH



Investors understand that their principal will be at very high risk

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

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