Best returns are typically on investments made in bad times!

Table analyses returns on investments in Sensex made after large falls, after 1 & 3 years.

					1 Year Later		3 Years Later	
	Date	**Sensex**	**Fall (%)**	**P/E**	**Sensex**	**Returns (%)**	**Sensex**	**Returns (%)**
	9-Oct-90	1559		20.0				
A	25-Jan-91	956	**-39**	11.3	2172	**127**	3982	**61**
B	18-Dec-90	1112		13.5	1835	**65**	3346	**44**
	22-Apr-92	4467		41.4				
A	26-Apr-93	2037	-54	13.7	3781	**86**	3765	**23**
B	26-Mar-93	2341		16.1	3713	**59**	3243	**11**
	12-Sep-94	4631		28.3				
A	4-Dec-96	2745	-41	17.5	3527	**28**	4836	**21**
B	6-Feb-96	3155		22.1	3403	**8**	3184	**0**
	11-Feb-00	5934		29.0				
A	21-Sep-01	2600	-56	10.1	3021	**16**	5606	**29**
B	13-Sep-01	2988		11.7	3099	**4**	5397	**22**
	14-Jan-04	6194		14.7				
A	17-May-04	4505	-27	9.8	6466	**44**	14300	**47**
B	14-May-04	5070		11.1	6528	**29**	13966	**40**
	10-May-06	12612		18.1				
A	14-Jun-06	8929	-29	12.5	14204	59		
B	5-Jun-06	10214		14.3	14535	42		
	8-Jan-08	20873		20.7				
A	16-Jul-08	12576	-40	11.6				
B	31-Jul-08	14356		14.2				

The table analyses performance of investments made after steep falls of the BSE Sensex.
Row A gives returns after 1 and 3 years from the index bottom.
Row B gives returns after 1 and 3 years from an index that is 15% above the bottom (more relevant as bottoms are hard to predict)
Returns under 1 year are absolute and returns over 1 year are annualized.

Buying equities when they have corrected substantially from peaks, particularly at times when valuations as measured by P/E s were reasonable, has proved to be an extremely profitable proposition for investors, earning them substantially higher than average returns.

I've found that when the market's going down and you buy funds wisely, at some time in the future, you will be happy. You won't get there by reading. Now is the time to buy. These things never go off that way… - Peter Lynch

Bargain valuations are available only in challenging times.

The key is to figure out whether the challenges are temporary or long lasting. The current challenges being faced by the Indian economy are largely a result of a simultaneous spike in oil and steel prices. Inflation, higher interest rates, high fiscal deficit
and current account deficits etc. are a result.
Over time, these will resolve. Either they will get passed on to the consumer, or prices will come down or both (most likely). Once this happens, inflationary pressures, interest rates, deficits are likely to moderate, growth rates should improve and the markets should follow.

Recommended course of action for an investor:
Evaluate your current asset allocation i.e. what percentage of your wealth is in equities (X%), Bonds (Y%) etc.
Figure out what percentage of your wealth you can put aside in equities for the medium to long term (for at least 3 years) and on which you can tolerate some intermittent volatility (Risk Capital, R%)
If R% > X%, then invest the difference in a diversified equity fund(s) and benefit from professional management and portfolio diversification

> The courage to press on, regardless of whether we face the calm seas or rough seas, and especially when the market storms howl around us, is the quintessential attribute of the successful investor.. - John C. Bogle

Conclusion
Perceived risk and actual risk seldom go hand in hand.
While in January 2008, at index levels of 21,000 perceived risk was low, actual risk was high (moderate prospects of index returns at levels of 21,000). Now, after the sharp fall in the markets, the risk reward of equity investments in India has improved remarkably compared to January 2008. At current index levels while **perceived risk is high**, **actual risk is low**.

The economy is facing some challenges this year, but these will pass (interest rates, inflation, deficits etc. should peak out in this calendar year).
India's long term secular growth story remains intact. Despite challenges over the short term, India remains the 2nd fastest growing economy in the world. With a huge local market, favorable demographics, high savings rate and rising salaries driving domestic consumption, underlying strong capex cycle and several large scale projects beginning to spend serious money, the economy should continue to remain one of the fastest growing economy's in the world for a number of years in the future.

While it is difficult for an investor to ignore the overall pessimistic environment and to invest, investments made at these levels should generate above average / attractive returns over the medium to long term.

Finally, be patient. Stay the course!