

5 Things You Need to Know to Ride Out a Volatile Stock Market

“The market seems to be up one day and down the next. I’d rather wait before investing.”

1 Watching from the Sidelines May Cost You

When markets become volatile, a lot of people try to guess when they will bottom out. In the meantime, they often park their investments in cash. But just as it is difficult to spot a declining market, many also fail to see an upward trend in the market until after they have missed opportunities for gains. Missing out on these opportunities can take a big bite out of your returns.

The table below is a hypothetical illustration showing the risk of trying to time the market. By missing just a few of the stock market’s best single-day advances, your overall potential returns could reduce dramatically.

Jumping In and Out of the Market May Cost You

10 Years Ended February 29, 2008

Period of Investment	Average Annual return of BSE Sensex
Stayed Fully Invested	17.09%
Missed the 10 Best Days	9.40%
Missed the 20 Best Days	4.11%
Missed the 30 Best Days	-0.12%
Missed the 40 Best Days	-3.75%

This table is for illustrative purposes only. Source: BSE Sensex. Index is unmanaged, and one cannot invest directly in an index.

India’s economic fundamentals remain strong and many global analysts expect India to emerge as one of the largest economies over the coming decades. This means that investments in well-managed companies are likely to deliver superior risk-adjusted returns over the long term.

Projected Relative Size of Economies in 2007 & 2050 (US = 100)

Country (indices with US = 100)	GDP at market exchange rate in US\$ terms	
	2007 (Rank)	2050 (Rank)
US	100 (1)	100 (2)
Japan	32 (2)	19 (5)
China	23 (3)	129 (1)
Germany	22 (4)	14 (9)
Brazil	8 (10)	26 (4)
India	7 (12)	88 (3)

Source: PricewaterhouseCoopers estimates (using UN population projections). Rankings from a universe of 17 countries.



“It’s hard to invest when stocks are this volatile.”

2 Systematic Investing Makes It Easier to Cope with Volatility

Most people are quick to agree that volatile markets present buying opportunities for investors with a long-term horizon. But mustering the discipline to make purchases during a volatile market can be difficult. You can’t help wondering, “Is this really the right time to buy?”

Systematic Investing can help reduce anxiety about the investment process. Simply put, Systematic Investment Plans using Rupee-cost averaging, means committing a fixed amount of money at regular intervals to an investment. You buy more units when prices are low and fewer units when prices are high, and over time, your average cost per unit is likely to be less than the average price per unit.

Systematic Investing at Work

Month	Monthly investment	NAV	No. of units
January	Rs. 1000	Rs. 10	100.000
February	Rs.1000	Rs.12	83.333
March	Rs.1000	Rs.10	100.000
April	Rs.1000	Rs.8	125.000
May	Rs.1000	Rs.10	100.000
Total	Rs. 5000	Rs. 50	508.333

Figures are for illustrative purposes only.

The average NAV = $50/5 = \text{Rs.}10.00$

Your average price = Your total investment/Total no. of units
= $5000/508.333 = \text{Rs.}9.84$

What you see from the table above is the fascinating aspect of Systematic Investing. It makes you buy fewer units when the price is high and more units when the price is low, thereby averaging out your cost, giving you the same discipline as investment professionals. While Systematic Investing does not assure you of a profit, it is known to have worked well for millions of investors throughout the world.

“I wonder if I should be more diversified.”

3 Now May Be a Great Time for a Portfolio Checkup

Is your portfolio as diversified as you think it is? Meet with your financial advisor to find out. Your portfolio’s weightings in different asset classes may shift over time as one investment performs better or worse than another. Together with your advisor, you should re-examine your portfolio to see if you are properly diversified. You can also determine whether your current portfolio mix is still a suitable match with your goals and risk tolerance.

“With so many opinions about the market, I don’t know who to listen to.”

4 Tune Out the Noise and Gain a Longer-Term Perspective

The strong growth in the Indian economy and markets has resulted in plethora of information available through various media outlets, dedicated to reporting market news. While this helps investors in keeping abreast of market developments, following market movements on a day-to-day basis could result in a very short-term outlook. To put your own investment plan in a longer-term perspective and bolster your confidence, you may want to look at how different types of portfolios have performed over time.

As you can see below, while stocks may be more volatile, they have still outperformed other asset classes over longer time periods.

Hypothetical Performance of Asset Allocation Portfolios (30/04/98–29/02/08)

	Growth of Rs. 10,000 investment	ROLLING 5-YEAR ANNUALISED RETURNS		
		Average (%)	Max (%)	Min (%)
100% Equity	190,679	34.78	56.47	14.65
80% Equity 20% Income	140,419	30.69	46.61	14.34
60% Equity 40% Income	99,041	26.17	36.60	13.72
40% Equity 40% Income 20% Liquid	63,956	20.63	26.57	12.15
20% Equity 60% Income 20% Liquid	40,276	15.09	18.83	11.03

The hypothetical asset allocation portfolios shown above are for illustrative purposes only. They do not represent the past or future portfolio composition or performance of any Franklin Templeton fund and are not intended as investment advice. Equity is represented by Franklin India Prima Plus, Income is represented by Templeton India Income Builder Account and Liquid is represented by Templeton India Treasury Management Account – Regular Plan.

Having a clear long term asset allocation plan in line with your investment objective and risk profile is far more important than chasing yesterday’s winners and focusing on short term trends.

“To keep from falling into this trap, consult your financial advisor before making any changes to your portfolio.”

5 **Stick To Your Beliefs and Doubt Your Doubts**

There are no real secrets to managing volatility. Most investors already know that the best way to navigate a choppy market is to have a good long-term plan and a well-diversified portfolio across asset classes. But sticking to these fundamental beliefs is sometimes easier said than done. When put to the test during volatile markets, you sometimes begin doubting your beliefs and believing your doubts, which can lead to short-term moves that divert you from your long-term goals. **To keep from falling into this trap, consult your financial advisor before making any changes to your portfolio.**



About Franklin Templeton Investments

Franklin Templeton is one of the world's largest investment management companies. Based in San Mateo, California, USA, the group currently manages assets of over US\$ 600.1 billion (Rs.23,95,599 crores) as on February 29, 2008.

It offers 240 products world wide and has over 60 years of experience in international investment management. With offices in 29 countries, it services over 17.7 million unitholder accounts.

Franklin Templeton India started its operations in 1996 in Mumbai, and currently has offices in 33 cities, and manages over Rs.29,424 crores of assets (as of February 29, 2008) through 50 different mutual fund schemes in the country.

For further information, you can call us at 6000 4255 (If calling from a Non MTNL/Non BSNL or Cellphone) or 1800-425-4255. (Local call rates apply for both numbers) from 7.a.m. to 11.p.m., 7 days a week

Scheme Classification and Objective: Franklin India Prima Plus (FIPP) is an open end growth fund with an objective to provide growth of capital plus regular dividend through a diversified portfolio of equities, fixed income securities and money market instruments. Load Structure: Entry: Where current purchase amount along with the aggregate cost of outstanding investment < Rs.5 Crores- 2.25%; =>Rs.5 Crores- Nil; Exit: < Rs.5 Crores-1% or 0.5% if the Units are redeemed/switched-out within 6 months or 1 year of allotment, respectively; =>Rs.5 Crores - 1% if redeemed/switched-out within 1 year of allotment. Templeton India Income Builder Account (TIIBA) is an open end income scheme with an objective to provide investors regular income under the Dividend Plan and Capital appreciation under the Growth Plan. Entry Load Plan A & Plan B: NIL; Exit Load: Plan A - NIL Plan B- Rs.10 lakhs & below - 0.5%, if redeemed within 6 months of allotment. Above Rs.10 lakhs - 0.25%, if redeemed within 3 months of allotment. In respect of each purchase of Units equal to or less than Rs.50 Lacs in value - 0.50% if redeemed within 6 months of allotment. In respect of each purchase of Units greater than Rs.50 Lacs in value - 0.25% if redeemed within 3 months of allotment. Templeton India Treasury Management Account (TITMA) is an open end Liquid scheme with an objective to provide current income with high liquidity. Entry Load : Nil; Exit Load Nil. Waiver of load for direct applications: In terms of SEBI circular SEBI/IMD/CIR No.10/112153/07 dated December 31, 2007, no entry load shall be charged for direct applications received by Franklin Templeton Asset Management (India) Pvt. Ltd. (AMC) i.e. applications received through Franklin Templeton website (www.franklintempletonindia.com) or submitted to any of Franklin Templeton Branch Office [Investor Service Centre (ISC)] / specified Collection Centre that are not routed through any distributor/agent/broker. This shall be applicable for all applications received for fresh purchases, additional purchases done directly by the investor under the same folio or switch-in to a scheme from other scheme(s), if such a transaction is done directly by the investor as specified above. **Risk Factor:** All investments in mutual funds and securities are subject to market risks and the NAV of the scheme may go up or down depending upon the factors and forces affecting the securities market. There can be no assurance that a scheme's investment objectives will be achieved. The past performance of the mutual fund managed by the Franklin Templeton Group and its affiliates is not necessarily indicative of future performance of the scheme. The above is only the name of the scheme and does not in any manner indicate the quality of the scheme, its future prospects or returns. The Mutual Fund is not guaranteeing or assuring any dividend under the scheme and the payment of dividend is subject to availability and adequacy of distributable surplus. The investments made by the scheme are subject to external risks. Please read the offer document carefully before investing. Statutory Details: Franklin Templeton Mutual Fund in India has been set up as a trust by Templeton International Inc. (liability restricted to the seed corpus of Rs.1 lac) with Franklin Templeton Trustee Services Pvt. Ltd. as the Trustee (Trustee under the Indian Trusts Act, 1882) and Franklin Templeton Asset Management (India) Pvt. Ltd. as the Investment Manager. The Fund offers NAVs, purchases and redemptions on all business days except during book closure.



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