Coffee Can Investing: the Low Risk road to Stupendous Wealth

Indian retail investors invested around Rs 1.4 lakh crores in Equity Mutual funds in 2017. Yet financial assets remain a very small part (5%) of their overall wealth which remains invested primarily in Real Estate and Gold (88%). This age old habit of investing heavily in gold and real estate has not only denied millions of Indians meaningful returns but also prevented them from benefiting from the country's steady economic rise over the past three decades.

For example gold has returned only 2% per annum on an inflation adjusted basis since 1990. So, Rs 1 lakh invested in gold has become Rs 11.2 lakhs in 2017. Had the same money been invested in the Sensex over the same period, it would have become Rs 35 lakhs. Real Estate price data is patchy in India but the long terms returns story for real estate is even more depressing in India. In the US for example, where long run data is available, real estate has delivered a mere 0.4% per annum since 1900! If in the century in which America rose to become the world's greatest economy, real estate did not deliver, we find it a little hard to believe that the outturn for this murky sector will be any different in India.

So, why do most Indians invest most of their wealth in physical assets especially since Indian capital markets are well regulated and relatively tax friendly? To be precise, only 2% of Indians invest in stocks!

Our research in our latest book, **"Coffee Can Investing: the Low Risk Road to Stupendous Wealth",** shows that, Indians' love for physical assets over financial assets arises from: (1) The lack of sound financial advice especially with regards to long term financial planning for major events like retirement; (2) Lack of trust in financial institutions who have become associated with the misselling of complicated products which have hidden charges; and (3) Lack of access to financial tools which simplify the investment decision when faced with a plethora of choices. As a result, investing in the stockmarket is seen as being the prerogative of wealthy Indians (business owners and institutions) with the general public – especially the middle classes – content to bet their hard earned savings on illiquid and tax inefficient asset classes like gold and real estate (which have high transaction costs to boot).

As advances in medical technology help us enjoy longer lives, it is important that we save carefully for retirement. Assuming that most of us will live for at least 25 years post retirement at the age of 60 and assuming further that post-retirement a couple will need at least Rs 30 lakhs per annum to maintain a reasonable lifestyle, even middle class families need to aim for a retirement corpus of at least Rs 8 crores. Worryingly, only a very small minority of Indians are saving and investing in a manner which will help them build such a corpus. Therefore, it is imperative that every Indian family has a long hard look at its finances and creates a financial plan aimed at building a substantial retirement corpus.

A sensible investment plan can mean the difference between meeting these life goals and missing them. Rs 1 lakh saved every year in a bank account with an interest rate of 4% per annum grows to only Rs 31 lakhs in 20 years. The same amount invested at 15% per annum (estimated long term equity returns in India) becomes Rs 1.18 crores! Clearly, ambitious life goals are more likely to be achieved by the latter corpus than the former one. Our book not only has a chapter dedicated to helping the reader her own financial plan, it also provides a link to an Excel-based financial planning tool that readers can download for their own use.

For the vast majority of investors in India, investment becomes a complicated affair partly because they are fed incorrect investment theories by self-serving brokers and intermediaries. The most common myth spread by the wrong type of intermediary is that ***"To make higher returns from the stock markets, one must take higher risks"***.

We show that there are two tools that an investor can use to **move from a 'high-risk/low-return'** stock portfolio to a **'low-risk/high-return'** stock portfolio**:** (1) 'patience' i.e. a holding period as long as 10 years; and (2) 'quality of the underlying business'. To be more specific, **Coffee Can Investing** shows commitment to high quality franchises that consistently sustain their competitive advantages over long periods of time despite being faced by challenges and disruptions at regular intervals. A portfolio of such companies, remains resilient even during periods of market stress, thereby generating consistent and healthy returns (substantially higher than the broader equity markets) with volatility of these returns being as low as that of a Government bond in the long run.

Whilst Coffee Can Investing focuses on large well established companies who have demonstrated sensible capital for a decade or more, another opportunity for a long term investor is in Indian small and mid-cap stocks. There are two reasons why smaller companies can outperform the broader stockmarket over extended periods of time – smaller companies have the potential to grow their profits much faster than large companies and, secondly, as small companies grow in size they are "discovered" by the stock market. A judicious selection of small cap stocks should give superior returns to investors. An important caveat here is that, because of lack of information and expert coverage, there are rampant quality and accounting issues in this space. Thus an average investor needs professional help whilst investing in small cap companies – something that our book highlights in the form of the '**Good & Clean'** approach to investing in smaller companies.

Building long term wealth to meet one's life goals need not be a complicated exercise. A few hours spent on reading "Coffee Can Investing: the Low Risk Road to Stupendous Wealth" will go a long way towards helping hard working professionals and business owners ensure that their financial needs in the years to come are addressed in a systematic manner.

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