Common questions asked by an investor

1. Is it the right time to invest?

Right time varies for each investor.There are two categories of investor mainly:

A. Who are in need for fund and start investingto earn high return (Risk averse).

B. Who have surplus fund and start investing thesurplus fund lying with them (Risk taker).

Each one of them has different purpose for investing and different set of priorities. A category of

investors mainly prefer investing in rising market and may exit after earning required return. They

are usually unwilling to take higher risk.

Whereas, B category investors are risk takers and they believe in higher the risk, higher the

return.Such investors tend to invest when the market is showing downward trend with the prospect

offuture upward trend. It surely has the risk of market continuing to witness downward but also

highreturn when the market rises. So before analyzing is it the right time to invest, one should

firstcategorise themselves as the type of investor and their priorities.

2. Are the markets too high? How do we determine if the market is "low" or "high" ?

One of the most popular and widely used parameter and widely used is P/E ratio or price earnings

ratio.

Let us understand these terms:

What is price of a market?

Price of a market is reflected by the value of the index (eg. BSE Sensex, CNX Nifty index etc.)

What is earning of a market?

Earnings of a market are calculated based on overall weighted average earnings of all stocks in the

index. P/E of the market is the value of the index divided by the earnings. Studying the broader

market? s P/E chart for a long time frame helps us to form a view as to, in which state the market is

and investors may decide at which point they should enter into the market.

3. Should I invest in debt or equity?

Now this is a question asked by every investor whether a first timer or not. Where should one

allocate their funds: debt or equity?

For this let us again classify investors depending upon the age group i.e. the young investor and the

old ones. Usually it is seen that investors belonging to the younger age group are more risk takers

whereas investors belonging to higher age group are risk averse. Equity is more volatile as compared

to debt. So for risk takers it advised to invest more in equity. Similarly for risk averse class of

investors it is suggested to invest in debt instruments.

Now again the question arises how much percentage of total funds should one invest? This can

beagain decided depending upon the age of the investor. Let us take an example to understand this.

Suppose Mr. X is 22 year old and Mr. Y is 65 year old. So X will fall under risk taker category and

Y under risk averse. It is usually suggested to invest 100 your age in equity and remaining in debt.

So in the above case for X it is advised to invest 78% of his funds in equity and rest in debt.

Similarly for Y it is suggested to invest 35% in equity and rest in debt.

The basic phenomenon behind this is that as a investor grows old the risk taking capacity reduces.

So it is advised to allocate higher percentage in debt due to it'snonvolatilenature.

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