



## Law of Inertia

**Ajit Menon**  
CEO

October 2023

Dear Investors and Partners,

As we all know, Sir Isaac Newton gave us the famous three laws of motion, among which the first law in a simplified manner, states that an object at rest will remain at rest unless an outside force acts on it, and vice versa. This law is also commonly known as the Law of Inertia.

Now you may be wondering why I am discussing Newton in a mutual fund newsletter and what it has got to do with investing. As a firm believer of behaviour-based investing, I think inertia plays a very crucial role in the long-term outcomes for an investor. The outside forces will disrupt the steady state every once in a while, but an investor or advisor who can maintain inertia in a positive sense, will have a better chance, in my opinion, to create wealth over the long-term.

But don't take my word for it. Let's look at some studies worldwide which highlight investor's activity, or the lack of it.

A study by Vanguard Group & Fidelity found that investors who held their equity investments for more than 20 years and 10 years respectively outperformed the investors who frequently traded. As per annual studies titled Quantitative Analysis of Investor Behavior (QAIB) done by Dalbar Associates since 1984, focused on analyzing investor behavior in the U.S., they found a recurrent theme every year which highlights that an investor tends to be his own worst enemy when it comes to investing behaviour. Performance chasing, attempts at market timing, focus on short-term causes an average investor to underperform over a period of time. As per their study as of end 2022, an average equity investor in U.S. earned a CAGR of 6.81% over a period of 30 years, underperforming the S&P 500 significantly which generated returns of 9.65% in similar time frame. (Source: Dalbar QAIB 2023 study, Morningstar Inc) This also highlights the fact that an advisor, apart from being a financial coach to the investor, needs to also double up as a behaviour coach and the greatest value add can be discipline and commitment towards long-term financial journey. Back home, a recent study by SEBI brought out that 9 out of every 10 derivative traders in India are losing money in the stock market. (Source: SEBI)

Coming back to Sir Isaac Newton, recall that even he was not successful at market-timing in his infamous investment in South Sea Company bubble of the 1720s, which led him to comment "I can calculate the motion of heavenly bodies, but not the madness of people".

Thank you for your continued trust and confidence in our investment management services. If you have any questions or concerns, please do not hesitate to reach out to PGIM India team or our distributor partners. Wishing you and your family a Happy Diwali.

Stay safe & happy investing.

pgim india mutual fund



1800 2667 446

Connect with us on:



This Document is for information purpose only. This Document and the information do not constitute a distribution, an endorsement, an offer to buy or sell or the solicitation of an offer to buy or sell any securities or mutual fund schemes (collectively "Products"). PGIM India Asset Management Private Limited and/or its affiliates/associates undertake no obligation to update forward-looking statements to reflect events or circumstances after the date therefore. PGIM India Asset Management Pvt. Ltd. and/or its affiliates/associates, their directors, employees, representatives or agents shall not be liable or responsible, in any manner whatsoever, to any Investor/Recipient or any other person/entity, for the performance of the products. The distribution of this Document in certain jurisdictions may be restricted or totally prohibited and accordingly no persons receiving this Document in any such jurisdiction may treat this Document as constituting an invitation to them to subscribe for units of funds of PGIM India Mutual Fund. ©2023 Prudential Financial, Inc. (PFI) and its related entities. PGIM, the PGIM logo, and the Rock symbol are service marks of Prudential Financial, Inc., and its related entities, registered in many jurisdictions worldwide.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.