



have been fluctuating enough to scare off would-be investors. Even experts are not confident of consistently timing the market well.

But don't abandon all hope of investing. With cost averaging, you're relatively insulated from the fluctuations. The discipline of investing regularly neatly sidesteps the troublesome issues of timing the market and the impact of emotional investment decisions—two areas where most investors stumble.

As legendary investment guru Benjamin Graham points out in his classic text, *The Intelligent Investor*, such techniques "prevent the investor from concentrating his buying at the wrong times".

How to pick a stock. You must first be clear in your mind that cost-averaging is a long-term strategy. If you're looking for quick capital appreciation, this method won't be much help. But as long as you're confident that a stock has the potential to appreciate over the long term, it is possible to accumulate it at a comparatively low mean cost of acquisition through cost averaging. So what should a retail investor look for while choosing a stock for a cost averaging plan?

Safety comes first. It's risky to try a cost-averaging plan with a stock susceptible to, say, technological change. Likewise, it's a bad idea to try it on highly speculative stocks like Reliance Industries, which often move too fast for a monthly cost averager to take advantage. It is also important to catch the growth cycle of a company. Getting in too early doesn't generate very impressive results.

Take BHEL, the state-owned power equipment manufacturer, which has been in a growth cycle, and Timex Watches, which has yet to enter one. If you had followed a four-year cost averaging plan up to May 1998, investing Rs 2,000 every month in both stocks, the results would have been very different.

The average purchase price for BHEL

would have been Rs 170, and for Timex Rs 39. Compare this with the 20 May market prices of Rs 385 for BHEL and Rs 24 for Timex.

Top stocks for a cost-averager tend to be fast-moving consumer goods companies and pharmaceutical firms. They are not as sensitive to recessions

HERO HONDA IN A COST AVERAGING PLAN					
	Market Price	Shares Bought	Amount Invested	Value of Investment	Average Price
Aug-95	213	23	4,899	4,899	213
Nov-95	204	24	9,795	9,588	208
Feb-96	278	18	14,790	18,038	228
May-96	260	19	19,730	21,840	235
Aug-96	295	16	24,454	29,525	245
Nov-96	233	21	29,342	28,163	242
Feb-97	308	16	34,270	42,196	250
May-97	517	9	38,923	75,482	267
Aug-97	652	7	43,489	99,794	284
Nov-97	892	5	47,949	140,936	303
Feb-98	815	6	52,836	133,578	322
May-98	1,175	4	57,536	197,400	342



Except for number of shares bought, all figures are in Rs

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THE RATIONALE

Hero Honda illustrates well how cost averaging works to your advantage, especially in a situation where the share price has been up and down. The example above shows the possible gains from having invested Rs 5,000 in Hero Honda shares every quarter for three years, starting August 1995.

We have assumed that the Hero Honda stock could have been bought in any quantity—which has been the case since dematerialisation was introduced.

While transaction costs—brokerage, stamp duty, postage, and the like—have been ignored, the number of shares bought has been round-

ed off to the previous whole number (since it is not possible to buy 1.3 or 1.8 shares, we have assumed only one share was bought). That is why the total amount invested through the three-year period is less than Rs 60,000.

In three years, an investor would have accumulated 168 Hero Honda shares, worth Rs 1,97,400 at current prices. That is 3.4 times the total invested amount of Rs 57,536.

By contrast, if the same Rs 5,000 had been invested in a recurring fixed deposit compounded quarterly at 12 per cent over 12 quarters, the value of the Rs 60,000 invested would have grown to Rs 70,960.

and upswings in economic cycles as engineering goods or companies in the commodities business.

Cost averaging works particularly well with shares of companies set for sustained growth based on strong competitive advantages, like Castrol in lubricants, Carrier Aircon in air-conditioning, and Infosys Technologies in software. Cyclical stocks, such as commodity producers or infra-

structure companies, work best only when the economy itself is in a sustained growth phase. For instance, a recovery from India's current economic situation would be the perfect starting point for a successful cost-averaging programme—one that would not lose you a single night's sleep over the volatile and unpredictable stockmarkets. ■

With Rajesh Gajra in Mumbai

