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Demonetisation altered investor behaviour in a big way

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By Vishal Dhawan

The first anniversary of [demonetisation](#) is a great time to reflect on its outcome. As a financial planner, I would like to speak about some changes that I have noticed in investor behaviour after demonetisation. I believe that some of these changes are likely to be transient and temporary, while some may be more structural and permanent.

It is commonly believed that there are some things that would remain the same in future. I believe investors tend to have short memories and we need significantly more evidence before we accept that the shift is structural and more permanent. Here are some trends that may be transient or temporary:

Financialisation of savings is more tactical than strategic

The shift from physical [assets](#) to financial assets has been significant over the last few years. It gained traction after demonetisation. Though there is a consensus that this shift has been structural and India could be moving towards a larger use of financial assets, our experience indicates that investors continue to favour and have greater comfort with physical assets especially real estate.

In our interaction with investors, we found out that the movement of money into equities and bonds has been driven by superior past performance data in the recent past vis-a-vis real estate and gold. It is less by a movement away from physical assets that is more permanent. Whilst we do hope that we are wrong on this one, we think this shift to physical assets is more tactical than strategic.

Non-guaranteed instruments vs other fixed income options



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Falling interest rates have made bank deposits and other small savings instruments less attractive on an absolute basis, relative to their past. A combination of falling bond yields and rising equity markets have resulted in non-guaranteed instruments like [mutual funds](#) (both equity and debt and hybrid) significantly outperforming bank deposits and other fixed income instruments.

A large segment of investors have been replacing fixed income investments with certain categories like hybrid/balanced funds, with the expectation that the higher returns of the past will continue in the future. A global or domestic event that causes a sharp equity market correction, or interest rates to move up sharply, could send a large number of these investors back to the comfort and safety of fixed returns.

However, there are some changes that are more permanent in nature, and can impact investors and [investment](#) portfolios for a significantly longer period. These include:

Risk of holding cash is a real risk, not a perceived risk

Traditionally holding cash at a zero cost was looked upon as a far better alternative than paying an income tax of 30 per cent. The fact that the cash could be converted to a significantly lower value through an event like a currency note ban has instilled the fear of a loss of



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value, either partial or complete. This has led to small business owners and individuals dealing in cash in sectors like real estate shun it, rather than suffer sleepless nights caused due to this loss.

We believe that we are now seeing a set of individuals doing their businesses or transactions, without any cash dealings, to ensure that they are not exposed to this risk. Thus, real estate transactions and gold could see investors insisting on transactions that are completely documented.

Automated savings mechanism like an SIP

Recurring deposits and monthly insurance premiums have always existed and have been used by a certain set of investors to automate their saving process. The benefits of saving through SIPs, that too over long periods of time, are now starting to get noticed. As a financial planner, one of the recommendations that we make most often has been that money gets invested before it gets spent, rather than investing what is left after saving. We think that SIPs are a great way to ensure this, and a lot of investors will benefit significantly from this discipline that they have got into over the last 12 months.

When we celebrate possibly the third anniversary of demonetisation in a couple of years, we should have more clarity on what shifts are permanent and what shifts are transient. Till then, investors need to stay focused on their financial goals.

(Vishal Dhawan is a certified financial planner and founder of Plan Ahead Wealth Advisors Pvt Ltd, a SEBI registered investment advisory firm.)

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