Was there a Great Equity Tragedy in India from 2000-2020 ? Can we avoid a repeat tragedy from 2020-2030 ?

Contents

1. Why I wrote this Whitepaper?

1.1 -Who am I ?

I have been fortunate to have lived in three different countries India, Thailand and USA and worked at TAS (Tata Administrative Services), Citibank, PayPal and SpaceX. You can learn more about me on https://www.linkedin.com/in/sanjaybhargava/. I am now an "Egoless Karma Yogi". My series of whitepapers is to provoke action. I do not claim that my suggestions are right so they should be used as starting points where people use whatever is useful and discard the rest . I believe in blaming no one, inspiring everyone and the power of a billion plus minds. If you read this whitepaper and are convinced that you should become a DKTMH (Desh ki Taraaki Mein Hissedar) using equity index investing for even a smart part of your wealth then one of my key purposes will be achieved. Maybe you will spread the message to all you touch who in turn will spread and the equity tragedy of "Wealthless Growth" will not repeat in 2020-2030. Large inflows into equity investing will provide the much needed capital for India to become a $10 Trillion GDP economy by 2030 and all sections of society and all business large and small will benefit. See Virtuous Circle (Sec 3.6).

1.2 Yes there was a tragedy – Proof points

The data and sources used for the analysis conclusions in this whitepaper can be found here https://bit.ly/DataNET2030. The data shows that growth was rapid in 2000-10 but slowed in the next decade. 66% of household savings are in fixed deposits, savings account etc. so even though the nation grew, many households were not invested in equities so they were not DKTMH (Desh Ki Taraaki Mein Hissedar). **This was the tragedy**. The enormity of the tragedy is outlined in the next few sections.

<u>The Rs 60000 Opportunity loss for a very poor Household</u>

Even a very poor household that gets money from government schemes can save Rs 100 a month by managing expenses. (Section 3.1). A Rs 100 SIP in a Nifty 50 Index fund grows the Rs 25200 invested to Rs 117008 or 4.64 times (12.26% CAGR) . If the money was kept in cash the loss would be around Rs 90000. Investing in a recurring cumulative fixed deposit would make the money grow to Rs 57000 (7% CAGR) which gives you the headline opportunity loss number of Rs 60000.

<u>Har Koi Ban Sakta Lakhpati ya Crorepati</u>

The very poor household could have had over a lakh of long term savings and become a lakhpati household A household that could invest Rs 10000 per month could be a crorepati household.

<u>Opportunity Loss of 5.5 lakh crores (3 times presumptive 2G loss of 1.76 lakh crores)</u>

Household net financial assets were 15.6 lakh crores in March 2020 of which 66% or 10.3 lakh crores were in bank deposits/cash. India's GDP in 2000 was 5.68 times smaller. Dividing 10.3 lakh crores by 5.68 we get a very rough estimate of 1.8 lakh crores for bank deposits/cash in 2000. We assumed the CAGR for fixed deposits/cash at 7% and of equity at 12.26% from 2000-

2020. If equity % was zero for the 1.8 lakh crores the 1.8 lakh crores grow to 7 lakh crores while if the equity % was 60% it grows to 12.53 lakh crores which is an opportunity loss of 5.5 lakh crores to Indian households because they stayed away from equity investing. This is 3 times the presumptive loss in the 2G scam but this loss was never discussed in the media. **YES THERE WAS A GREAT EQUITY TRAGEDY from 2000-2020.** There is no point crying over spilt milk or playing the blame game . How we can prevent a repeat is what we will discuss in the next section.

1.3 Preventing a Repeat – Desh Ki Taraaki Mein Hissedar (DKTMH)

Risk and Volatility in Index investing – Triple your money in 10 Years ?

In 2020-2030 should we be steering the masses towards investing in equities. **Equities are very volatile and the risk of losing money because of panic or distress is very real.** To answer this question I looked at 2748 days from Jan 2000 to Dec 2010 and calculated the 10 year return on each of these days. The minimum return was 4.02% and the Maximum was 20.63%. The average was 12.82%. Only 7% of the days gave a return of less than 7%, 27% were between 8%-11.4% and 59% were greater than 11.4%. 11.4% is the rate at which you triple money and the average 12.82% exceeds that. **All this is good but if you saw your savings go down in value by 50% would you continue your SIP.** The index on 1 Jan 2008 was 6144.35 and fell to 2682.9 on 1 Dec 2008. It came back to 6143.4 on 1 Oct 2010 so for 22 months your savings as of 1 Jan 2008 were losing money. **Once people understand that patience and holding power is super important in investing in equities and that when markets are climbing every day and high they should think of selling. When markets are low and falling every day they should be thinking of buying and not selling.** If you bought on 1 Dec 2008 and held for ten years then the index was 10876.75 on 1 Dec 2018. You made over 4 times your money. This is what the masses need to understand but that is very hard until they actually invest. Just as you cannot learn swimming without getting into the water no amount of financial literacy lectures will help you become a believer in long term equity index investing.

Nominal GDP , Equity Index Returns and DKTMH

Lies, damn lies and statistics. It is important to understand the logic behind the numbers. The equity index tracks large listed companies whose sales correlate with GDP Growth and Inflation. We would expect the index growth to be less than nominal GDP growth but how closely does it track. In the decade of 2000-2010 Nominal GDP/ Index ratio was 1.34 and for the decade of 2010-2020 it was 1.26. More analysis will be needed but it seems that the link between Nominal GDP and the Equity index over ten year periods is logical and confirmed by data. In 2000-2010 the index grew 14.48% and nominal GDP grew at 19.35%. Growth slowed a lot from 2011-2020. The index grew 8.57% and nominal GDP grew 10.81%. If you shift the start date to Sep 28, 2007 and exclude the boom period 23% of the days had a less than 7% return. If we state this differently we could say that for almost eight years from 2000 there was not one day that you got returns worse than fixed deposits by investing in the NIFTY 50 Index if you held for ten years. If the next 12 years on three out of four days you got better returns than fixed deposits. For the full 20 years if you invested regularly every month in the equity index you did much better than fixed deposits. The action point for you is to become a DKTMH (Desh ki Taraaki Mein Hissedar) and grow your long term savings. **An aspiration for every hard working Indian citizen is they could be a crorepati by the time they retire. Inflation will make a crore not as valuable as it is now but for many they would be very**

happy if they could retire with a crore for their old age. If you are DKTMH then you can make the 1 crore goal come true for you.

What do we do in 2020-2030. How to avoid "Wealthless Growth" ?

Will 2020-2030 be more like 2000-2010 with rapid growth or will it be like 2011-2020 with relatively slower growth or will it be even worse. No one has a crystal ball but 2020-2030 could be India's decade. A lot of the policy makers believe that growth will be rapid from 2020-2030.

"Wealthless Growth" is when there is national growth but the median household income does not grow in proportion to national growth. As the previous sections show clearly we have had two decades of "Wealthless Growth" which is a tragedy. Can we prevent a repeat in 2020-2030. For that we have to Change our Lens. (See Section 3)

1.4 Building on JanDhan, Jan Nivesh and my view on 2020-2030

Hon'ble PM Modi laid the first building block for universal equity index investing or Jan Nivesh with Jan Dhan. Many other building blocks have also been laid and it is my hope that on or before **Aug 15th, 2022 PM Modi will announce Jan Nivesh**. It is interesting to note that every person who can invest in Indian equities (NRI,OCI, minors, adults) can participate in Jan Nivesh so a target of 100 crore investors is not impossible. If on the average these investors invest Rs 1000 into equity indices each month then Rs 100000 crores will flow into equity markets each month. If this investment is productively utilised then the USD $10 trillion GDP dream by 2030 need not be a mirage. I remain optimistic that Jan Nivesh will happen and thus I am bullish on rapid growth in India from 2020-2030.

1.5 Are You Desh ki Tarakki Mein Hissedar (DKTMH) – Viral DKTMH

If you have read this far then as you read on keep asking yourself what you should do with your own long term wealth creation. Here is a 6 and a half minute video I did on understanding Wealth Creation https://www.youtube.com/watch?v=6ocoVrKPQzs. As the famous poet Kabir had said – Do not delay start today . See https://www.bhaktimaal.com/kal-kare-so-aaj-kar/. You may also like to see the cost of delay tab in this excel https://bit.ly/DataNET2030.

If you viral DKTMH then your equity portfolio is likely to benefit as possibly 100000 crores of liquidity inflows every month into the equity markets will lift equity indices. All the flows will not be just into the NIFTY 50 index funds.

2. Executive Summary

From 2000-2020 India suffered a "Wealthless Growth" Tragedy where there was an estimated opportunity loss of wealth creation of 5.5 lakh crore. This is not debatable. Hindsight is always 20/20. There is no point in ascribing blame or crying over spilt milk. It is likely that growth will be rapid from 2020-2030. Can we prevent a repeat of this tragedy. I wrote this whitepaper to provoke action. It is just a starting point. The executive summary has two sections. The first is a recommendation section and the second is an action points section.

2.1 Recommendations – Har Koi DKTMH (Desh ki Taraaki Mein Hissedar)

2.1.1 - Replicate the success of the Jan Dhan program with a Jan Nivesh program.

2.1.2 – Start a Universal Social Security program for all workers who are paid less than Rs 500000/- per annum. This would include part time, full time, contract, gig workers and even those who are paid from MNREGA.

2.1.3 Implement the 7% Guarantee program

2.1.4 Ensure No loss on Rs 100 SIP

2.2 Action points

2.2.1 **PM/FM/CM/ Industry –** They should examine this whitepaper and see how they can prevent the "Wealthless Growth" tragedy from repeating. PM should announce Jan Nivesh on or before August 15, 2022.

2.2.2 **Bureaucrats/ Regulators –** They should work with the financial services industry to provide an enabling regulatory framework and make no loss on Rs 100 SIP a reality and to make micro equity index investing single click.

2.2.3 **Financial Services Industry –** They should be farsighted and understand how preventing this tragedy benefits households in India and their shareholders. There is a possibility for their solutions to scale globally

2.2.4 **Media/NGO -** First they need to convince themselves that the solutions proposed in this whitepaper make sense and then help the leaders/regulators/industry to get the message across to the masses. New Media start-ups or influencers can also viral the DKTMH message.

2.2.5 **YOU –** First make yourself a DKTMH (Desh ki Taraaki Mein (Hissedar) . Then try and convince all the people you touch and or pay. Start with immediate family. Consider giving all you pay social security. You can act without waiting for the government, industry. Instead of giving a Diwali bonus give 8.33% of your domestic staff salary as an equity index SIP every month. **Set up an SIP for your child or grandchild. See Lucky Baby tab on https://bit.ly/DataNET2030.**

3. Changing the Lens

In some sectors in India a “change in lens” like introducing production linked incentives have helped create rapid growth. In this section I have tried to outline a few suggestions where a “change of lens” is needed to prevent a repeat of the “Wealthless Growth” tragedy in 2020-2030

3.1 Everyone can Save Rs 100 a month and create long term wealth – How can people who live hand to mouth save even a small sum like Rs 100 ($1.25) per month. I have seen people who earn Rs 10 lakhs a month and who find it difficult to save because they live life King Size. I have also seen poor who earn Rs 150 ($2)a day or Rs 4500 ($60) a month save much more than the around 2 % of their monthly income that we are asking them to save. Just Rs 100 invested in equity index funds can make every household have over Rs 100000 (~$1300) in long term wealth. It is strange that organisations like OXFAM, CGAP and leaders around the world are not making micro equity investing a cornerstone of SDG #1 – Ending Poverty. Maybe I am missing something.

3.2 Universal Social Security – It gets even better. Let us imagine that for everyone who works part time or full time, contract or permanent their employer pays 8.33% into their social security account as long as the amount paid by that employer to the employee in the financial year is less than Rs 500000 (~$ 6700). To encourage retention of permanent employees or apprentices the employer could clawback the amount if the employee leaves before completing a year. For employers the government could reimburse them the entire 8.33% for new hires in the financial year as long as the new hires exceed 10.

3.3 The Biggest Pension Funds in the World - The largest mutual fund companies in India already manage pensions for Employees Provident Fund, National Pension Scheme and many large companies. If there was universal social security and micro equity investing just imagine how large these pension funds will be and the returns they could get by investing some part of their money in investments other than index funds. The returns could be higher than passive index investing. There must be competition and professional management for these huge pension minds.

3.4 The 7% Guarantee/ Countering advantages of informal system, gold, real estate – The task of convincing the masses to do micro equity investing is not simple. Many invest in committee, gold, real estate and so on. Getting every household to invest even Rs 100 per month will not be easy. If the policy makers are convinced that 2020-2030 will be a decade of rapid growth in India then for all folios opened after say April 1, 2022 for first time index fund users up to Rs 100000 invested in the time period April 1, 2022 to 31 March, 2027 they could give a floor return guarantee of 7% by GOI. The government could keep this risk on its books or buy derivatives from companies like Berkshire Hathaway. The masses could continue investing in other classes but once they realize the advantages of index equity investing they will automatically move more and more of their long term savings to equity. **If growth is slow in 2020-2030 the 7% guarantee could cost GOI or the insurer quite a bit.** If micro equity investing is a prerequisite for Sabka Loan then that would be a powerful incentive to start micro equity investing. This is similar to an SHG (Self Help Group) having to deposit savings before they get a loan. It is also essential that the design is such that it requires close to zero input (with single click) to get started, track, add and withdraw money. Multilingual support is essential.

3.5 No loss on a Rs 100 SIP – The above discussion is nice but nothing will happen if the providers of micro equity investing products lose a lot of money. **This is the elephant in the room.** If it costs them even Rs 20 (their cost would probably exceed that) to service a micro equity customer and their revenue is close to zero then why would they push micro equity investing. The losses can quickly become quite large. With innovative thinking and enabling institutions/regulators the No loss on Rs 100 SIP can become a reality and then large companies as well as start-ups will be encouraged to think of financial inclusion as a lucrative long term opportunity. No human or paper has to be involved to make Rs 100 SIP no loss as the annual earning on Rs 100 SIP into an equity index fund will around 60 paisa (0.1% on Rs 600). Thus cost has to be less than 60 paisa per year. **I leave it to the brilliant minds in India to come up with a solution. I will only say that there is a solution if you think innovatively and disruptively.**

3.6 The Virtuous Circle - India can prevent wealthless growth by nudging micro equity investing . This will nudge the mass affluent and retired people including government servants, PSU employees, defence and paramilitary forces to consider index equity investing. All this will be great for providers of index equity investing. The nation will get a huge pool of long term money to invest in infrastructure and policy makers and regulators can bask in the glory and take the credit for preventing another decade of “Wealthless Growth” .

A virtuous circle indeed where every household is a DKTMH (Desh Ki Tarakki Mein Hissedar)