DNA Money Guide: Financial planning in 2022 for the cautious professional

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With the second new year of the corona era beginning in the shadow of Omicron, it is prudent to be more cautious and less optimistic.

On March 24, 2020, India announced the first 21-day complete lockdown of the country. The corona era had started. The first wave of rising infections and deaths came a few months later. But by the time we were ready to welcome 2021, things were looking up. The predictions for the year were cautious but optimistic. But the devastating second wave a few months later took the wind out of the sails of even the most hopeful among us. As we begin the second new year of the corona era in the shadow of Omicron, it is prudent to be more cautious and less optimistic. That may not sound very festive, but difficult times call for tough decisions. Here are a few suggestions for how to plan for the new year.

Uncertain Regulations

In the old days of the pre-corona, everyone and their mother wanted regulatory certainty. It is easier to plan and operate in a world where the rules are clear and do not change frequently. Arbitrary changes in regulations were why Vodafone and Cairn dragged the Indian government to arbitration tribunals across the world. But it is just firms that suffer. Imagine waking up one day to find out that the restaurant you have been working at for years cannot serve customers. Or that your child will need a laptop to continue their grade 5 education.

None of us needs much imagination to appreciate the impact of these changes. We have all faced them. But in the process, many of us have been left exhausted. We know that a night curfew or a (limited) lockdown may be implemented at short notice. But we have not adapted our planning process to this new reality. We still plan our vacations, marriages and parties, months in advance. Even our investment or career plans frequently do not account for regulatory uncertainty as much as they should.

Large scale disruption of the sort caused by a global pandemic leads to rapid changes in the world around us. Some are directly due to the virus while others are ripple effects (virus -> school closures -> online gaming/gambling). As a result, regulations have to be formulated at an accelerated rate, not just to limit the impact of the virus, but also to address related changes. This implies that regulatory uncertainty is not only inevitable, but it may even be desirable.

Unfortunately, it seems that most of us do not have a finely tuned ability to assess risk in such a scenario. So here is a simple suggestion: plan over short time horizons. Regulations are more likely to be predictable if you are planning only a few days or a couple of weeks ahead. It is also important to keep your plans flexible, such that you can alter them if the need arises. This of course implies that it is better to not take critical life decisions in these uncertain times.

There are many more Greek letters yet to be taken up: pi, rho, sigma etc. It is better to operate on the precautionary principle - assume that there will be more variants, the uncertainty will persist and plan accordingly. If it does not, be in a position to give your dreams another go in the post-corona world.

Get rich (ultra) quick?

On the flip side, social upheavals do create great wealth creation opportunities. To capitalize on what may be a once-in-a-lifetime opportunity, risks have to be taken. But it is not always obvious how much risk is too much, particularly in an uncertain environment. Take the example of equity markets. Partly due to platforms that make investing as easy as the tap of a button and partly due to the availability of surplus funds with those whose income streams were not affected by the pandemic, a new generation of investors entered the market.

Almost all old market hands agree that this group does not play by the old rules and that has changed market dynamics. GameStop is the quintessential example of retail investors rallying to disrupt the plans of powerful hedge funds. But while some see it as a heart-warming story, retail investors also drove up the prices of shares of Hertz, an almost bankrupt company that openly said that its stock could be "worthless". Since then, Hertz has gone bankrupt and then almost miraculously come out of bankruptcy. There is no way that retail investors who invested in this meme stock could have predicted this miracle. They were all playing the game of passing a hot potato and hoping they would not be stuck being the last person holding it. In a time when income streams are uncertain, this approach may not be the best one for most people.

The active traders do not need advice, so here is a simple suggestion for the rest of us: enter equity markets only with the money that you can afford to lose. In addition, it is best to stick to the principle that equities are a long-term play. They build wealth over time and while short term trades can yield returns, they are high risk. In the current scenario, they are even riskier.

Riskier still are instruments that are subject to regulatory sanctions. Cryptocurrencies, despite the promise of the underlying technology, or perhaps because of it, pose a threat to the ability of nation-states to control and regulate their economy. In a time of duress for governments, this could translate into them being targeted explicitly. Some countries have already imposed a complete ban making it very difficult for people to access their investments.

In an uncertain environment, returns may not be the most important metric. It is perhaps best to think in terms of value protection: if I have a hundred rupees, how do I make sure that I have at least a hundred rupees tomorrow. This may seem like very conservative advice at a time when stories of 200 and 500% returns are commonplace. But bull markets tend to disappear on a whim. The trusty old EPF isn't the worst idea until you build a comfortable savings cushion.

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