

# The Tortoise and Hare Story

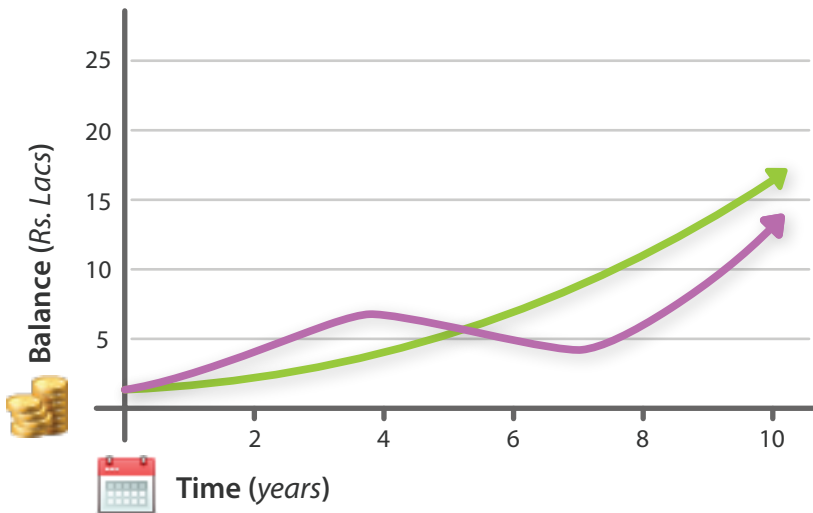


We all know that the tortoise won the race against the hare and we are told that "Slow and steady wins the race". But don't we know that the hare can run much faster than the tortoise? The story doesn't end after the first race and it's time to know about the subsequent races too!

Investing has its tortoise and the hare too. You must split your investments into two parts -- equity (investments in stocks, equity mutual funds, etc) and debt (investments in FDs, bonds, insurance, debt mutual funds, etc). Equity investments are usually more risky than debt investments while giving better returns.

Let us assume investments of Rs 100K every year over a 10 year period with the hare (equity) getting returns of 15-20%, while the tortoise (debt) getting 8% returns.

## Scenario 1: Slow & Steady wins the race



The hare starts briskly and has a lead of over Rs 150K after the end of 4 year period. After all, he's getting a return of **20%** in the 4 years.

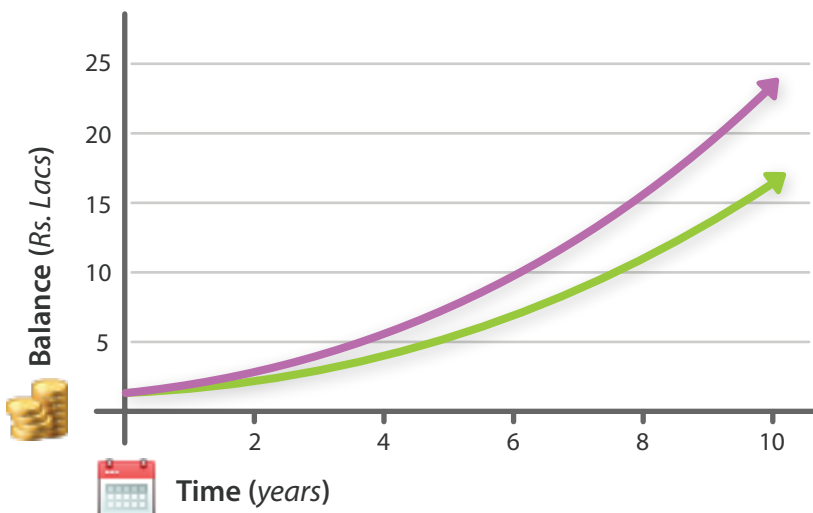
But we all know about the big market falls and the hare burned his fingers and suffered losses in just 3 years out of 10.

So at the end of the 10 year period, the tortoise with his **8%** returns

every year has **Rs 15.60 lacs** as against the **Rs 13.40 lacs** that the hare has.

Slow and steady wins!

## Scenario 2: Fast and disciplined always beat the slow and steady

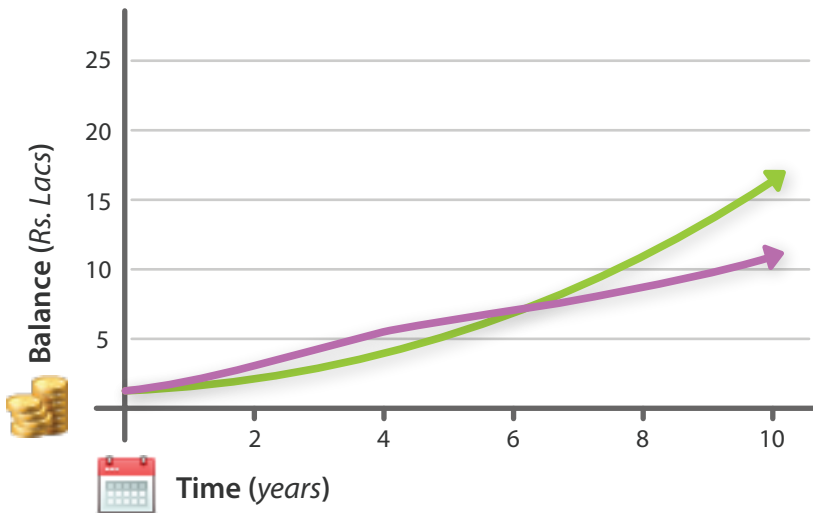


The hare was disappointed and did some soul searching as to why he lost. Though he knew the market crash did him in, he also knew that he had become overconfident and failed to manage risks.

He also knew that he lost opportunities in the falling market and he could easily beat the tortoise (and inflation too!) if he managed his risks and exercised discipline.

He challenged the tortoise for a re run and won comfortably with consistent returns of **15%** per year as against the tortoise's **8%**. His value of the investments was **Rs 23.30 lacs** as against **Rs 15.60 lacs** of the tortoise!

## Scenario 3: The River of life



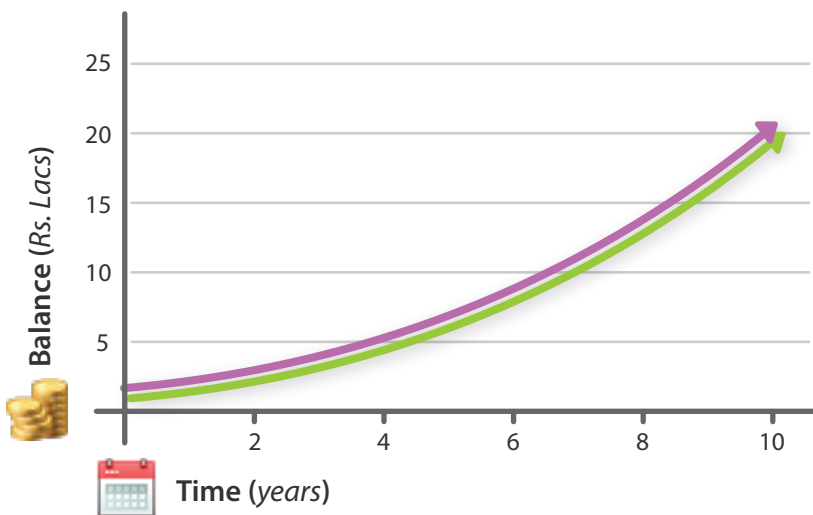
The story doesn't end here. The tortoise challenges the hare again. This time the route has a river in between. This was a risk that the hare did not think of and was not prepared for.

This is a scenario which explains the importance of insurance and the need for continuation of income. This is when the hare is hampered by certain circumstances beyond his

control. Hare gets **20%** in 4 years but his income stops and he cannot add Rs 100K every year after 4 years.

The tortoise is able to cover the river smoothly (as he is adequately insured). The value of his investments at the end of 10 years is much more than that of the hare. Tortoise wins.

## Scenario 4: Teaming up wins



By now, the tortoise and the hare had become friends and knew about each other strengths. They knew that the other had complementary strengths and weaknesses. They allocate roles for themselves and helped each other during the run. They arrived at the destination safe and happy together.

In investing, asset allocation is very useful concept. It has been found that over 91% of long-term portfolio performance is derived from the decisions made regarding asset allocation, and not market timing or security selection. Asset allocation is the percentage distribution of your money into equity, debt and liquid instruments. Equity, as you know, gives the highest growth but comes with the highest risk. Debt instruments are more or less guaranteed but give you a lesser return. Liquid money is your money in your savings account.

It's a good idea to team up your investments with both debt and equity players. Teamwork wins!