# Investing in stock market: Are your hands clean?

“One’s philosophy is not best expressed in words; it is expressed in the choices one makes... and the choices we make are ultimately our responsibility.” - Eleanor Roosevelt

The journey of investing in the stock market involves responsible decision-making amidst of various choices. However, you will be able to maximize your returns only if you are accountable for your decisions. Further on, responsibility emanates from integrity that is vital for a healthy financial culture and efficient markets.

Yet, have you been responsible in your dealings? Have you upheld the virtue of integrity? The journey of investing might involve various situations that would test your virtues as well as your sense of responsibility. This article gives you an opportunity to question yourself on the aforementioned.

CHART 1

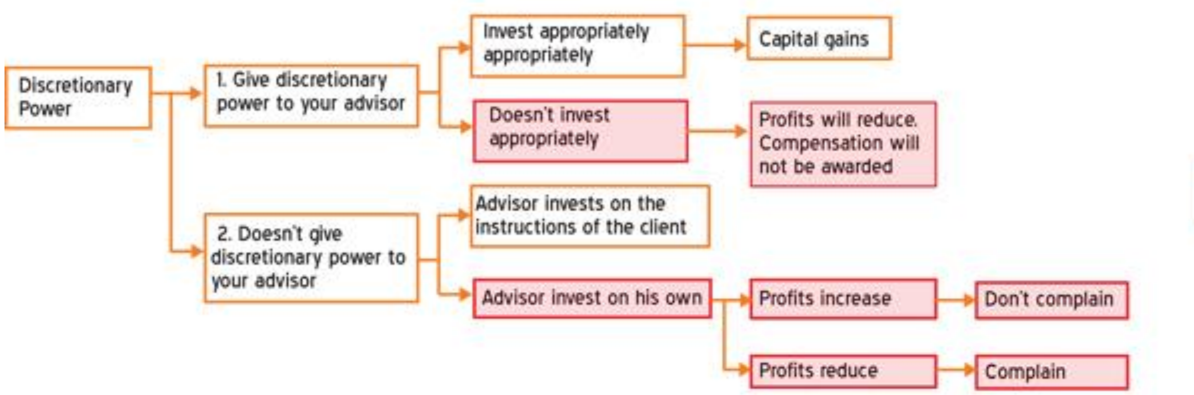
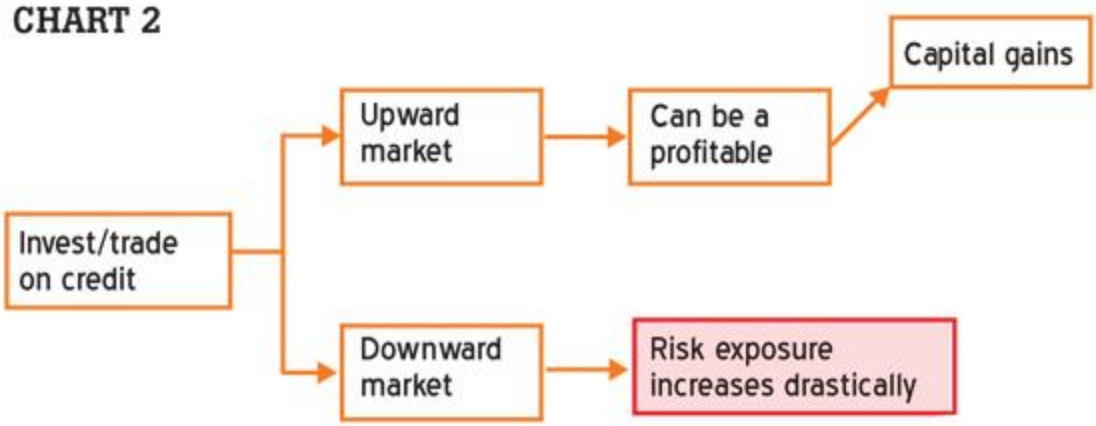



CHART 2



## Are you farsighted?

It is important for investors to be farsighted when investing in the stock market. A classic example for this is giving discretionary power to your investment advisor. Discretionary power is given to your investment advisor by signing a Discretionary Account. It is an account that allows an investment advisor to buy and sell securities without your consent. It is not mandatory to sign it. Hence, you should think twice of the probable situations before you sign the document (refer Chart1).
Usually investment advisors are more involved in the market and it could be argued that they will be able to capture lucrative investment opportunities and at times might lose these opportunities if they wait for your consent. In such a situation, giving discretionary power might earn you profits. However, if these investments don't comply with your financial goals profits might reduce. This shows the importance of responsible decision-making.

Let's look at the second instance. When discretionary power is not given, your investment advisor is expected to invest based on your instructions and most of them adhere to it. There is also a slight possibility of the advisor trading without your consent. There can be various reasons and one such reason would be the genuine intension of generating profits. As a responsible investor, it is your duty to rectify such unauthorized transactions (even when you are generating profits) by reporting to the Compliance Officer of the stockbroker firm while keeping your investment advisor informed.

When such complaints are received disciplinary action will be taken against the investment advisor if there is any form of wrong doing from his end but the regulator/exchange will not compensate for the capital losses incurred by investors. Thus, it is your responsibility to monitor your portfolio by contacting your investment advisor periodically and updating yourself on the documents you receive.

Investing on credit is another important factor that investors should give due consideration. The importance of responsible decision-making is stressed in Chart 2. If you require credit to purchase shares you have to sign a Credit Agreement. It is a legal contract in which a stockbroker firm gives a loan for a certain period for you to purchase shares. It outlines all the rules and regulations associated with credit. Once again, it is important to bear in mind that this is an optional service offered to you by the firm.

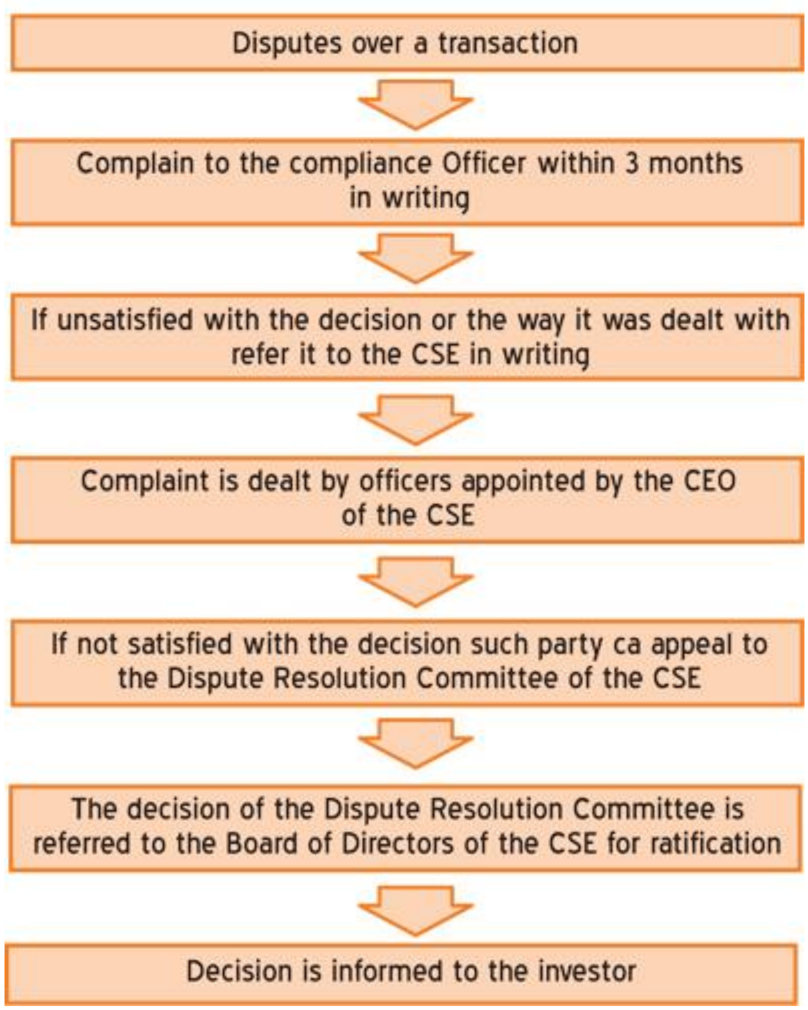
Decision to trade on credit and exposure to credit involves informed and responsible decision-making. When we are caught up in robust market it is natural for investors to opt for credit to increase profits. They might hesitate to think of the impact of investing on credit during a bear market. As responsible investors, you should weigh the pros and cons of credit in the long run. Remember that you are accountable for your decisions. A stockbroker firm sends a Statement of Accounts to all clients who are debtors over trade day + 3 (T+3), on a monthly basis by the seventh day of the following month. You will be able to manage your credit prudently if you analyse this statement carefully.

If there are any discrepancies pertaining to Discretionary Accounts or credit exposure, investors should inform the Compliance Officer immediately. Negligence might prevent you from obtaining solutions.

It is also the responsibility of the investor to select a licensed investment advisor. In this competitive world you will be lost for choices. Many would promise high returns but be focused and select a suitable licensed investment advisor. This will enable you to maximize returns.

**Do you want to be an ethical investor?**

CHART 3



Many investors do not hesitate to find fault with their advisors/stockbroker firm. Yet, have you ever questioned yourself on your actions/omissions? There are certain rules and norms that govern equity markets. It is the responsibility of our investor community to comply with these rules/norms in spirit, intention and purpose. The points stated below will assist you in your journey of investing.
4Be accountable for your decisions.  Usually when all goes well in life we remain in our comfort zone but when the tide gets rough we blame others. Such an approach when investing is not healthy.

4Invest only your money. Never collect money from other individuals and invest in the market in your name. Only investment managers are allowed to invest other's money. An investment manager is a person who for a fee or commission engages in the business of managing a portfolio of listed securities on behalf of an investor or advises any person on the merits of investing, purchasing or selling listed securities. The licence to function as an investment advisor is issued by the Securities and Exchange Commission of Sri Lanka (SEC) after a systematic process of evaluation.
4Continue to support the initiatives of maintaining efficient markets. Continue to refrain from entering high-risk penny stocks with the intention of engaging in unethical forms of trading as it could distort the market and hamper the growth of your portfolio.

**Are you a vigilant investor?**

Markets are not static and don't function in isolation. These markets are highly correlated with the external world that evolves rapidly. If you are to win the market, you will have to constantly (preferably daily) monitor the market and specially your stocks and current affairs. When following up on the market, it is of utmost importance to read the relevant documentation.
Bought/Sold Notes, CDS Account Statements and Statement of Accounts are the most important documents investors should focus on. Investing does not stop after the selection of stocks. An equal importance should be given to monitoring your investment. Unfortunately, investors don't give due prominence to this aspect of investing. You will be able to gain remedies only if you complain immediately. It is a healthy practice to complain during both, good (profits) and bad (losses) times. Remember that it is negligence that makes rebuilding necessary.
The stockbroker firm is expected to dispatch Brought/Sold Notes by the end of the trading day. The notes are sent by post and they will email it to you if you request. It is advisable to request for your confirmation notes via email. If you don't receive these confirmation notes it is your responsibility to inform the Compliance Officer at your earliest this will shield your portfolio from unwanted losses.

**Do you follow the stipulated complaint procedure?**

As we all know, prevention is better than cure. However, your actions/omissions might pave the way towards disputes. In such situations investors should be aware of the authorized procedure to lodge complaints. Chart 3 is an overview of the process investors could follow.
The article is geared at educating our readers on the importance of taking up responsibility when investing in the market. It does not imply that you would encounter such situations. The industry usually upholds utmost levels of professionalism when interacting with investors.

Further on, these examples could not at any point undermine the extraordinary performance of the market. As clearly depicted in Table 1, the Colombo Stock Exchange has outperformed the 12-month Treasury bill yield during the last 30 years. It is an ideal financial instrument for long-term investors. The points discussed in the article will assist you in maximizing your returns in this robust market.

Let responsibility, honesty, integrity and accountability be the hallmark of your journey of investing.

***(Source:2015-04-06 – Market Guide in Collaboration with SEC)***