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Anil Rego February 19, 2009

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ONE of my clients, Naren, is a salaried individual who earns Rs 18 lakh per annum. He invests in shares, but recently he lost a significant amount of money in the market fall. His portfolio was down by 70 per cent when the market was down by 55 per cent at the same time. How did

that happen?

Recap

Naren’s relationship manager (RM) with a Broking House had recommended 38 stocks to him. The RM believed the value of these stocks would go up by about 70 per cent within the next 12 months.

I asked to see the list of stocks and the analyst reports to study the RM’s recommendations. Interestingly, Naren produced a printout (not on a company letterhead) with no mention of the company’s name or the RM’s name.

There was a list of 38 stocks each with a 12 month target. The sheet also calculated the percentage upside from the current stock price, that is, the percentage by which they expected the stock price to go up. Naren’s RM advised, “Infrastructure stocks are likely to do very well over the next few years. A stock like Jaiprakash Associates has fallen by upto 90 per cent from the peak.” Naren, trusting his word, was about to go ahead and invest in a large number of midcap stocks, in an effort to regain some of his earlier losses.

Naren was obviously being taken for a ride. To prove my point, I told Naren to ask his RM to give the same list on the company’s letter head supporting them with analyst reports. It’s been weeks since, he has not received any letter and the relationship manager has stopped picking up Naren’s calls.

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