Success mantra for 2013: Keep it simple

The new year is no different as asset allocation, in line with your risk profile, remains the key for long-term wealth creation

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GET THE BASICS RIGHT

- If you do not know where to invest your money, park the surplus in a liquid fund, so that you earn at least more than the bank savings rate
- Then, in line with your risk profile and liquidity needs, make your investment policy statement
- Take a look at asset classes and take an overweight call, if required, in any of the asset classes — equity, debt, gold and real estate
- With the expected downward movement in interest rates, it is recommended to lock in funds marked for debt into a longer duration — 18-30 months
- With a longer-term horizon in excess of 3-5 years, you can have an allocation between 10-15% of the overall portfolio for gold

- Invest in equities with a horizon in excess of 5-7 years and link them with your goals
- In mutual fund, you can choose a mixture of largecap, sectoral and midcap funds and stay put for the long term
- Do not chase returns. Set a benchmark, not linked to the Sensex or Nifty, and let that be the base for you to consider as minimum expected return
- Based on your risk assessment, 30-50% of your portfolio can be considered for investment in equity

LET'S start with the basics. If you do not know where to invest your money, park the surplus in a liquid fund, so that you earn at least more than the bank savings rate. Then, in line with your risk profile and liquidity needs, make your investment policy statement. This will also enable you to have the asset allocation and portfolio rebalancing process in place.

Then, you can look at asset classes and take an overweight call, if required, in any of the asset classes — equity, debt, gold and real estate. Having a strategy is important, as volatility and the fluid political environment across the globe can make you either chase returns or make you retreat into fixed income products.

What helped in 2012 will also be your friend in 2013 — asset allocation. For debt instruments, you should go in for the longer duration ones to ensure that you continue to get the returns, locked in now. If not, then for 12 –15-month period where dynamic bond funds can also be considered. You need to be sure what gives you comfort — the accrual strategy, which will give consistent return without being volatile, or an actively managed fund, which gives you a higher return accompanied with volatility.

With the expected downward movement in interest rates, it is recommended to lock in funds marked for debt into a longer duration — 18-30 months. This will ensure that you reduce the reinvestment risk. Say, if you are going to lock-in for 12 months, with the downward movement in interest rates expected, when your investment matures, the money can only be reinvested at a lower interest rate. And, every investment which has an interest rate element carries the reinvestment risk.

Gold as an asset class, irrespective of what is happening will continue to be a favourite. With a longer-term horizon in excess of 3-5 years, one can have an allocation between 10-15% of the overall portfolio.

One could also look at silver along with gold in the overall allocation. However, silver ETFs or funds are not in place as of now, but you can always invest through e-silver. Gold and silver as an alternative asset class should also form part of this portfolio , but not exceeding 10-15%. Again, no thumb rules. It's your risk appetite which matters.

Equity, as an asset class, brings both euphoria and despair. Retail investors, more often than not, miss the beginning of a rally, enter at peaks and, then, exit at lows. Patience and long-term investing virtues are displayed, only as an aberration. This is where you could revisit the entire investing process this year and beyond.

Let 2013, be a new beginning in this regard. Invest in equities with a horizon in excess of 5-7 years and link them with your goals. In mutual fund, you could choose a mixture of largecap, sectoral and midcap funds and stay put for the long term. Do not chase returns, as your greed can never be satisfied with whatever returns are generated. Set a benchmark, not linked to the Sensex or Nifty, and let that be the base for you to consider as minimum expected return

Look at equity from the point of view of ownership into a viable business, rather than looking at return generating monster. Based on your risk assessment, 30-50% of your portfolio can be considered for investment. Past data of longer-time durations exceeding five years, have shown that double digit returns being generated, inspite of the volatility and the inflation.

And as always, do remember that asset allocation should be your mantra for long-term wealth creation.

Also, while many of us like complex and exotic instruments and avenues, which give the bragging rights in small talk among friends, one should indulge with only 5% of one's overall portfolio. For the rest, keep it simple. That's the golden rule.

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