Wealth Management and Investment Strategies

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Markets are always full of uncertainty. It will always give us surprises or shocks. Investment strategies will always have to factor in uncertainty even when it doesn't exist. Contrary to the popular belief, an investment strategy has to be simple rather than complex. It has to be flexible rather than rigid. It requires pure and simple common sense rather than super intelligence. The ground rules for the investor to build a successful investment strategy are very simple.

Assess risk

The investor has to assess his or her risk profile. The return and the risk go together. If you want higher return, you have to take higher risk. If you do not want higher risk, you cannot expect higher return. One has to assess his risk profile and marry it with his or her investment goal.

One cannot start a journey without knowing the destination. Why would you like to save? Ask this question again and again. The answer to that will be the anchor for your investment strategy. It will be foolish to invest your money which you have kept for purchase of a house or some other asset over the next six months in equities. It will also be equally foolish to invest your requirement money in say liquid funds.

Please take advice from a professional financial planner to assess your risk profile and recommend a suitable investment strategy.

Practice asset allocation

The other important rule is to undertake asset allocation. Every asset class has its own risks. The actual or perceived loss makes investors take erroneous decisions in fear. A well-diversified portfolio across different asset class like debt, equity, real estate and commodity will reduce the chances of losses on a portfolio basis. This non-correlation will give solid ability to the investors to withstand market volatility.

The thumb rule for asset allocation is that 100 minus your age is the allocation to equity. Depending upon your risk profile, one can change the allocation to equity. So, for a conservative person in the age group of 50, maybe 70% of the portfolio should be in debt assets including floating rate funds, liquid funds, debt funds, RBI bonds and Post Office schemes. The rest 30 % should be in equities. One need not stick to this allocation on a daily basis. The balancing can be done once in a quarter basis or at regular intervals of higher frequency also. The whole idea behind this is to ensure that one has sufficient cushion to absorb volatility in the market. If one is 100 per cent invested in equity and the markets come down by 10 per cent, one may panic and end up booking losses and exiting the market when it is probably the time to invest. The ability to withstand volatility helps investors to stay invested during all times and generate returns.

Start early

The most powerful tool discovered by man in investing is "Compounding".

Compounding works in your favour day and night. Your investment of Rs. 1000 @ 15% annual return 35 years ago would have grown more than 133 times. You would have to invest four times more ten

years later or 16 times more 20 years later or 66 times more 30 years later to get the same maturity value. The power of compounding can multiply your wealth in the long run. So, there is no better time to invest than today.

Invest regularly

The simple rule to making money is “Buy Low and Sell High”. It is difficult, however to decide what is low and what is high. Markets have gone far lower from “rock-bottom prices” and have also risen higher than “sky-high prices.” No one can predict the future. The world’s most successful investors don’t have more than average strike rate on their investment calls. They have made money by letting their profit run and cutting off losses. It is far better to invest regularly in a market, which keeps on going up and down (and maybe sideways too) and is difficult to predict.

Many investors have lost money in technology funds launched during the first quarter of the year 2000. A regular investment in those technology funds would have given a positive return by now. Regular investment in a market which is going up or down reduces the cost of acquisition over a longer term. Rupee averaging works wonders for investors even in a relatively flat market.

I urge investors to follow these simple principles of starting early, investing regularly and diversifying risks to multiply their wealth over the long run. Happy investing.

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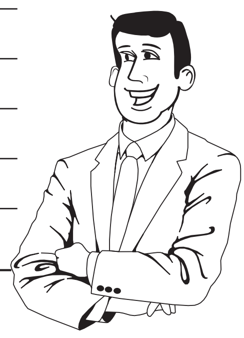

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