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Key Principles for Managing Your Portfolio

Diversifying portfolio by allocating in different asset classes can save you from volatile market cycles

Ankur Maheshwari
26 May 2021

Let us look at a couple of important guidelines which are helpful and important for building a sound long-term investment portfolio for yourself.

Asset allocation is an ideal long-term portfolio involves the combination of multiple asset classes such as equity, debt, real estate, and gold, amongst others. Further, each asset class comprises a broad variety of sub-assets. For example, within equities, one can have variants like selecting between domestic or global equities, large or mid or small-cap companies, growth or value funds, and many more. A suitable asset allocation, that is, a combination of these asset classes in a ratio is the cornerstone of building a sturdy portfolio. It is unique to every investor and accordingly weightage for each asset class should be a function of your risk appetite, time horizon, liquidity needs, and financial goals.

In order to arrive at an effective asset allocation strategy, investors should start constructing a portfolio with a blank sheet of paper and total investment corpus in mind. In practice, many individuals already have some accumulated investments and may be biased to tweak their asset allocation strategy to justify their existing investments. Hence, the role of financial advisors is also equally important while deriving the asset allocation strategy.

Benefits of Asset Allocation–

Firstly, a well-thought-out asset allocation strategy helps investors construct a portfolio that closely matches one's future return expectation and meet financial goals such as buying a vehicle or house, child's

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education or marriage, retirement planning while minimising the risk and return volatility of the overall portfolio. Secondly, right asset allocation also helps investors to benefit from diversification achieved through investing in different asset classes as each one of them behaves differently in different market cycles. There are always periods of relative outperformance between various asset classes. Given that asset classes are not perfectly correlated or in few instances are inversely correlated, investing in different asset classes helps the investors benefit in the long term.

The second important philosophy is around periodic review and rebalance of portfolio, which is as critical as deciding the asset allocation strategy. Regular portfolio reviews help investors to evaluate the performance of their investments vis-à-vis benchmark as well as expected returns. Regular portfolio reviews also help investors to rebalance the portfolio if required to maintain the desired asset allocation if the weight of one asset class has increased or decreased due to market movement.

The third tenet for building a sound portfolio is being disciplined and working with a long-term approach. An effective way of increasing exposure for equity and debt asset class is through Systematic Investment Plans, popularly known as SIPs. It essentially means investing a small amount of money on a pre-set date with pre-defined frequency (say 1st of every month) into specific mutual funds. Conceptually, SIP is the most time-tested and evergreen way of investing. It provides perhaps the most disciplined way of investing in equity and debt markets alike.

Benefits of investing through SIP-

1. **Disciplined Investing–** Eliminating any personal biases by investing regularly is necessary.

2. **Rupee cost averaging–** An effective investment strategy that eliminates the need to time the market.

3. **Power of compounding–** The key to building long-term wealth is to start investing early and let that amount compound over a period of time.

In conclusion, irrespective of the investment corpus, investors should begin with deciding the asset allocation strategy first. If feasible, investors should seek professional advice while deciding their asset allocation. Once the asset allocation is decided, investors should consider constructing their portfolio in a phased manner. They should actively evaluate investing through SIPs to increase their equity and debt market exposure and to build their long-term corpus.

The author is CEO, Equirus Wealth

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