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Review your investment portfolio now

New financial year, sudden rally in equity and debt markets, and the upcoming elections are reasons for a relook at your investments

Priya Nair
priya.nair@dnaindia.net

The beginning of the new financial year is a good time for investors to review their portfolios and see if any changes need to be made in their asset allocation. This year, with the upcoming general elections in India and signs of slow down in developed markets, reviewing your portfolio is perhaps even more imperative. **DNA Money** spoke with experts to understand what you should look forward to when taking stock of your investments and how to reallocate them.

When should you do it?

Ideally, portfolio review and rebalancing should be looked at as two distinct activities to add value to your financial plan. For example, a portfolio review is something that must be undertaken on an annual basis as a matter of practice. However, portfolio rebalancing must only be undertaken if there are strong reasons like asset-mix going out of sync or some major changes in your goals or if there are some significant changes in macros that we are expecting, says Mayuresh Joshi, fund manager, Angel Broking.

According to Nitin Rao, CEO, Reliance Wealth Management, in India, the end of the financial year works as a good rebalancing point given that it coincides with the filing of taxes for the year.

"Portfolio asset allocation is a factor of market movements and cross-asset correlations. The periodicity of rebalancing hinges around factors such as transaction costs involved, taxation and the allocation tolerance bands that are set while constructing the portfolio. Rebalancing too often or too little could be detrimental for portfolio returns. An annual or rebalancing on significant market movements should help keep the portfolio in good stead,'' he says.

According to Anupam Guha, head – private wealth management, ICICI Securities, there are two types of portfolio asset allocation strategies – long-term strategy and tactical. "Tactical rebalancing should be at regular intervals and also basis event-driven risks. The start of a financial year, which brings in the visibility of revised cash flows, especially for salaried individuals, can also have implications basis tax-rule changes, regulatory changes, etc. Hence, it becomes a good time to review investment portfolio,'' he says.

STRAKING A BALANCE

- On the micro front, look out for the rate of improvement in bank NPAs and corporate earnings recovery data. The key risk is elections
- **Given the positive outlook on the equity market, beginners should start small, get used to the volatility and then increase the exposure to equity.**

What to expect this year?

This year is going to be different because event risks are much higher now, says Prateek Pant, head of product and solutions, Sanctum Wealth Management. "As we get into general elections, a lot of people had been sitting on the sidelines. But, as usual, the market has surprised them in the short run. It has started rallying much before the elections in anticipation of a more favourable verdict,'' he points out.

According to Guha, most of the global headwinds of last year have turned into tailwinds this year with crude stabilising, US Fed pausing rate hikes and global trade war fears normalising. On the domestic front, again, things have started looking positive with crude and commodity prices softening, corporate earnings recovering and non-performing assets (NPAs) of banking industry bottoming out with National Company Law Tribunal resolutions happening. "The two most important data points one should look out for on the micro front should be the rate of improvement in bank NPAs and corporate earnings recovery data. The key risk is elections. Any government that is stable will give comfort to the market and investors irrespective of who wins," he says.

What should investors do?

Beginners should start small, get used to the volatility and then increase the exposure to equity. Equity funds are relatively less risky compared to direct investment into stocks. Systematic investment plans (SIPs) should be the preferred mode of investment in equity. Investors who are already invested should also look at investing their surplus funds into equity, subject to risk profile and investment horizon, says Rahul Jain, head, personal wealth advisory, Edelweiss.

For existing customers, Rao recommends getting fully invested, basis their asset allocation, before the election results are out. "Mid-caps have started looking attractive again given the sharp fall they have seen over the past year and should find space in investors' portfolios. Specialised strategies like portfolio management services, alternative investment funds could be looked at for participating in the non-traditional investment avenues. For new investors, MFs should form a majority part of their equity portfolio, with a staggered investment strategy weekly to invest everything before the elections,'' he says.

Investors who are already invested in equities should look to stay put or use a staggered approach till elections for incremental deployment into equity. "I suggest they keep 25% cash as dry powder to invest a lump sum in case of sharp dip pre or post-election results,'' says Guha.

With regard to debt, Joshi suggests long-duration funds, which are likely to benefit the most from a dovish yield scenario. "For debt fund investors, we suggest focusing more on bond funds and less on credit opportunities funds. Credit opportunities are still dominated by non-banking financial companies and housing finance companies and while their liquidity challenge is sorted out, the cost of funds is still a challenge. Pressure on these companies will continue and credit opportunity bonds will continue to be relatively risky,'' he says.

On the fixed income side, Pant suggests looking at newer asset classes like real estate investment trusts (Reits). "If I was, say, 30% in debt, I will take 10% of that and put in asset classes like Reit which will do a lot better than just pure debt,'' he says.

Real estate/gold

While recommending higher allocation towards equity in the near future, Jain says, "Gold is good for diversification of portfolio. A 5%-10% allocation to gold is generally considered reasonable. Real estate should be avoided unless it is for self-occupation."

According to Pant, it is advisable to stay away from residential real estate, where there is too much supply and look at affordable housing, commercial real estate, good quality warehousing, etc.