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Areas covered

- What is asset allocation?
- Why Asset allocations?
- How to decide right Mix?
- Risk profiling
- Re-balancing

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What is Asset allocation

Asset allocation refers to distributing your investible surplus across asset classes such as equity, debt, gold, real estate or even holding cash for that matter.

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Benefits of Asset allocation

- Reduces investment risk
- Optimises return
- helps in being Attuned to your financial goals
- Makes market timing irrelevent
- Aids in Tax Planning
- Addresses your Liquidity Need

Why Asset allocation?

- Asset allocation helps investors reduce risk through diversification.
- Historically, the returns of stocks, bonds, and cash haven’t moved in unison.

Source: Bloomberg and MOAMC Internal research. *Data for CY20 is updated till June 30, 2020

Different asset classes perform differently

	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20
Best	56.8%	30.1%	77.6%	24.4%	30.6%	29.4%	49.6%	32.9%	8.6%	14.8%	30.3%	7.4%	34.1%	24.28%
	16.7%	9.1%	21.8%	19.2%	21.2%	19.5%	8.1%	16.4%	6.2%	12.9%	14.7%	5.9%	20.7%	8.0%
	7.0%	-22.5%	19.8%	10.5%	6.9%	10.3%	3.8%	14.3%	-3.0%	10.9%	6.8%	4.6%	13.5%	1.1%
Worst	-6.0%	-51.3%	3.5%	5.0%	-23.8%	9.4%	-19.0%	0.9%	-6.1%	4.4%	4.7%	4.3%	10.7%	-14.9%

Debt	Equity	Gold	International Equities

- Different Asset classes move up in the pecking order and come down the order
- Changing lanes as per the last year's best performer can be harmful to your wealth creation journey

Source: Bloomberg and MOAMC Internal research. *Data for CY20 is updated till June 30, 2020

Primary finanancial asset classes

- Equity
- Debt
- Cash

Key characteristics

Equity	Debt	Cash
Offers high returns	Offers safety & Consistency	Provides instant liquidity

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Key Risk

Equity	Debt	Cash
Offers high returns	Offers safety & Consistency	Provides instant liquidity
High Risk	Low return	Lowest return

Million dollar question!

How to decide right asset allocation?

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Deciding right mix

- Risk Tolerance
- Time Horizon
- Financial Objective
- Liquidity

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Risk Tolerance

- Your willingness to brave ups and downs of the market for more potential returns in the long-term.
- You may be happy with 25% returns but are you also willing to take a loss of 25% on your investments?

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True test

You may be willing to take risk in a bull market, but your true risk tolerance may be tested in a bear market.

Time horizon

- How long can you stay invested without withdrawing or selling your investments?
- Also how long do you expect or want your corpus to last?

Time horizon

	Short term	Long term
Inflation Risk	Less	High
Market Risk	High	Less

- Longer the time horizon, equity exposure should be more.
- Shorter the time horizon, Debt or cash exposure should be more

Financial Objective

- What are your financial goals?
- Do you want to invest to improve your current lifestyle?
- you want to build a corpus for your children's education, maintain the current lifestyle post retirement or buy a new house?

Liquidity needs

- How much do you need each month to maintain your current standard of living?
- What are your present assets?
- Do you expect to spend a lot of money in the near future on marriage, education or a medical requirement?

What is your risk tolerance?

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Risk profiling can help

- Risk profiling is the scientific process which helps you to decide your asset tolerance level.

- Based on risk profile, you can select the ideal asset allocaiton

Rebalancing

- Selling one asset class and buying another.
- Allows you to maintain a desired asset allocation over time.
- Essential for balancing the risk.

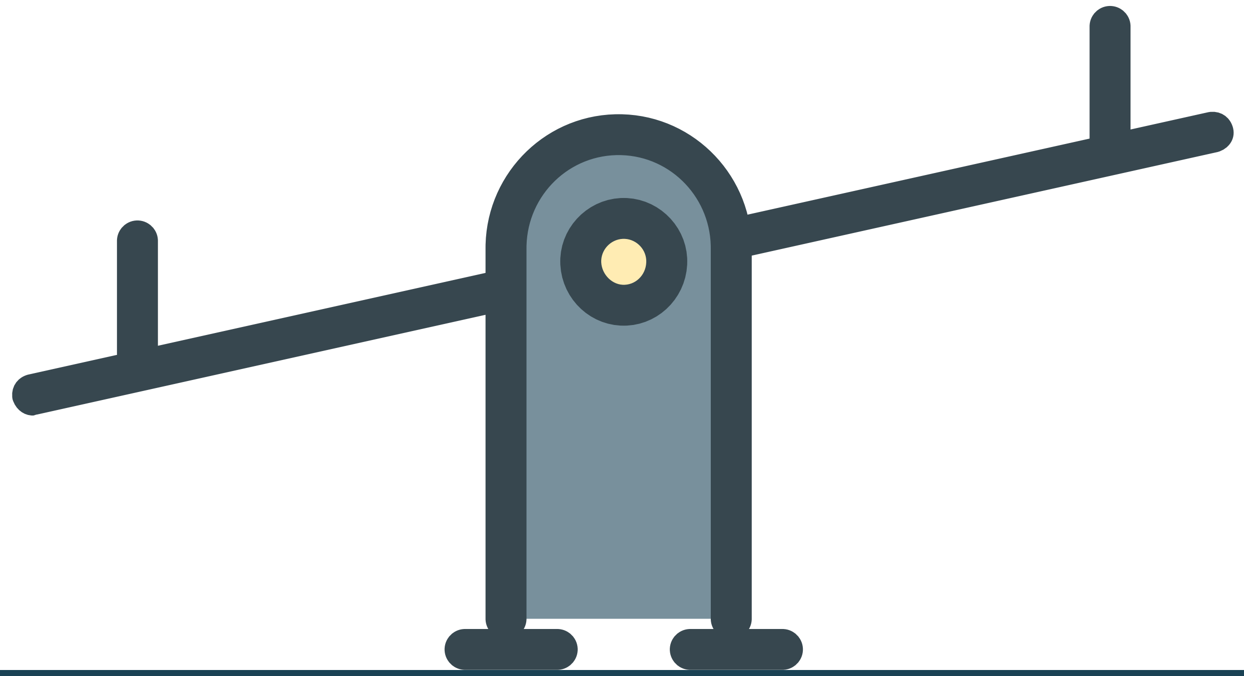
Example

Your financial advisor suggested you to go for 60% Equity & 40% debt

You invested Rs 60000 in equity & Rs 40000 in Debt

Scenario 1 - Equity return **+25%** & Debt **+7%**

Scenario 2 - Equity return **-20%** & Debt **+7%**



Scenerio 1

Equity return **+25%** & Debt **+7%**

Asset	Decided allocation	Investment	Return	Value	Current allocation	Access over ideal asset allocation	Action
Equity	**60%**	60000	25	75000	**64%**	**-4320**	Withdraw
Debt	**40%**	40000	7	42800	**36%**	**4320**	Invest
Total Value				**117800**			

Conclusion - Following re-balancing based on asset allocation helped in profit booking.

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Scenario 2

Equity return **-20%** & Debt **+7%**

Asset	Decided allocation	Investment	Return	Value	Proportion	Access over ideal asset allocation	Action
Equity	60%	60000	-20	48000	53%	6480	Invest
Debt	40%	40000	7	42800	47%	-6480	Withdraw
Total Value				90800			

Conclusion - Following re-balancing based on asset allocation helped in Investing more in euqity during correction

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