
ASSET ALLOCATION
STOCK
BONDS
REAL ESTATE
CASH

Areas covered

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

Vishal Shah - +91 99090 17227 | Vishal@sampradaainvest.com | www.sampradaainvest.com

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.

Benefits of Asset allocation

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- 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?

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- 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

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	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

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Primary finanancial asset classes

- Equity
- Debt
- Cash

Key characteristics

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

Key Risk

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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?

Deciding right mix

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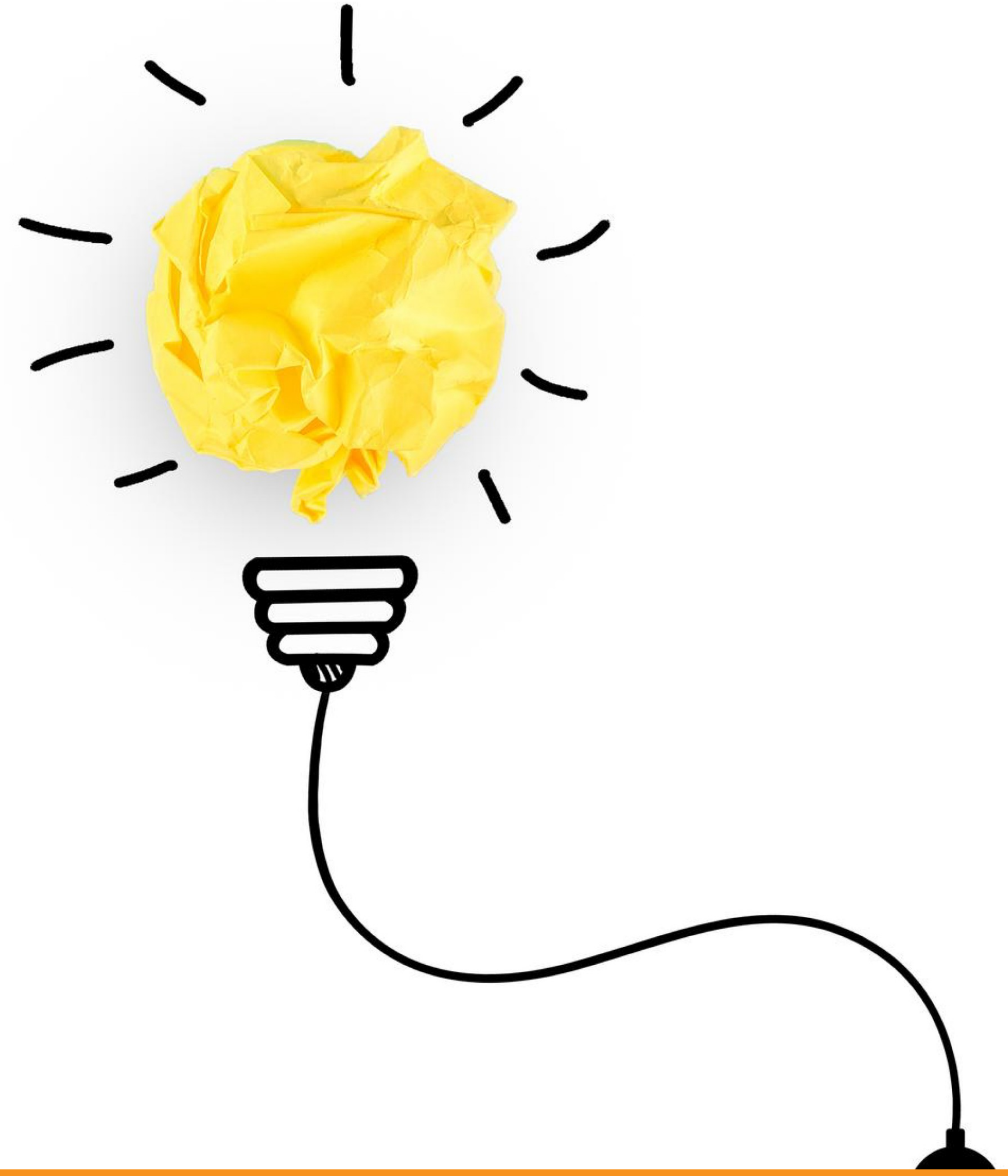
- Risk Tolerance
- Time Horizon
- Financial Objective
- Liquidity



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

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

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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

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	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

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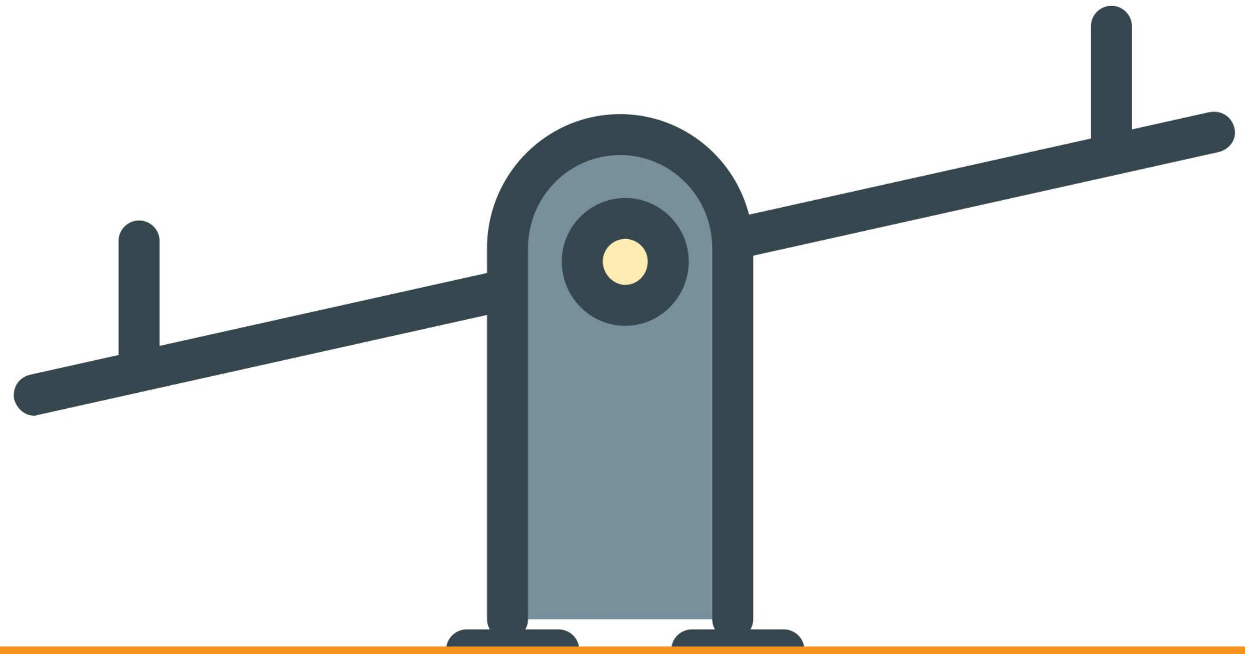
Your financial advisor suggested you to go for 60% Equity & 40% debt

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.

Scenario 2

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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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