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FIFA Perspectives

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Time to change your clients' asset allocation?



Should your clients continue with 5-10% in gold or is it time to reduce / eliminate exposure to gold as an asset class? What should you advise clients to do with the profits they are riding on long duration income funds? Time to take some of that money off the table on income and gilt funds - or should you ride these gains for longer? What should you do with equity exposures if we are headed for another year of range bound markets ahead of the elections? Reduce equity or use this opportunity to go overweight in equity?

Time to finally discover love for international equities or continue with the love story with Indian equities only? There are important decisions that you need to make today on all three major asset classes. Wealth Forum spoke with 4 highly successful advisors - all key members of FIFA - to get their perspectives on how to advise clients on asset classes at this juncture. Read on, gain from their perspectives, and share your own thoughts with fellow advisors across the country.

Dhruv Mehta, Mumbai



Gold : I am negative on gold. The global rally was perhaps largely a function of fear - that phase of fear is perhaps behind us now. As we look forward to growth in India and globally, we should look at more productive assets which can participate in the growth story. I do understand that many investors may be holding some gold in their portfolio essentially as a hedge - as a diversifier. From an Indian context, the only function that gold performs now is a currency hedge. But one can argue that international equities may give you a similar hedge against local currency, while at the same time being more growth oriented and more productive.

Bond Funds : I would say remain invested within bond funds - but as the rate cycle plays out and rates come down further, you will need to nimbly juggle your exposure between long term, short term and even liquid funds. I think going forward, one may need to gradually increase exposure to accrual based strategies and cut down duration, as rates get progressively cut. I also think the coming months should be used to create some liquidity - you never know - with elections coming up, there could be some volatility in equity markets that you may want to use to your advantage. Creating some liquidity may be a good idea for this.

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Equity : As many of us have been saying, this 20,000 is much cheaper than the last 20,000 that we saw in 2008. Valuations are supportive - I think one should remain invested in equities, and ride through some possible volatility that we may see in the run up to the elections. Within equities too, I think its time investors consider international diversification. The US equity story is looking strong, US corporate balance sheets are in very good shape, leading US companies are fully geared to growth from outside US too. I think its time to look not just at Indian equities, but selective international themes too.

Surya Bhatia, Asset Managers, Delhi



Gold : There are two categories of investors - those who have maintained a 5-7% allocation to gold as a diversifier and a currency hedge and the second category is those who went as high as 15-20% in gold, chasing higher relative returns from that asset class. For those who are within the 5-7% range, there is no need to exit. I ask such clients who are nervous about gold - are you selling your jewellery? If not, why sell this? After all, this is a far more effective way of owning gold as compared to jewellery. The concept of diversification has not got invalidated - its still valid. There is no need to panic and exit. For the second category who added gold aggressively in the hope of higher returns relative to other asset classes - they need to reduce their gold holdings if they haven't done so already. I don't see gold outperforming other asset classes over the next year. So, if that was the primary driver, you may want to exit gold. If it was bought as a diversifier, you should stay invested.

Bond Funds : A large part - maybe 70-75% of the rally in long bonds is behind us rather than ahead of us. Remember, we are now not far away from 7% yield on the 10 year paper, and we've moved a long way down from near 9% levels to near 7% levels now. I would say one should progressively move from long duration funds into dynamic bond funds - whose mandate is wide and not restrictive, and then further into accrual based funds. It's a question of reallocating within the fixed income category, and not revisiting whether the category itself should be reduced in the asset allocation. Even today, there's a reasonable prospect of getting close to double digit returns from good accrual based funds. So, getting progressively into dynamic bond and accrual products makes good sense.

Equity : Even if equity may be "boring" - ie range bound until the elections, one should maintain neutral weight in equity. Market PE is far more relevant than the sensx level - and the PE is currently at fair value zone. There's no need to go tactically overweight - but there's no case to go underweight either. I am bullish on equities over a 3 year perspective. If you want to look at tactical plays, you may want to look at the banking sector, which should benefit from the rate reduction cycle. Also, within the overall equity allocation, one should seriously consider international diversification. There are good funds that offer exposure to US and select Asian markets - these should be considered as good diversifiers within the equity allocation.

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Roopa Venkatakrishnan, Mumbai



Gold : I have been recommending gold primarily as an asset allocator and have ensured that most of my clients have between 5%-10% in gold, and in fact had got most of them to purchase in 2006 itself. Some clients who took a larger exposure or where it breached the 10% limit from an allocation point of view, we've booked profits around the Rs.30,000 levels. I am personally not very bullish on gold going forward, and will continue to maintain it in client portfolios only as an asset allocator, and strictly within the 5-10% cap.

Debt Funds : There are tax implications you have to keep in mind before deciding to take profits. There is also the opportunity loss you have to consider. Yes, debt funds have seen a good rally - but if you are exiting now only to book profits, what are you going to do with the proceeds? What is the opportunity loss you might incur by not staying invested through the cycle? You need to carefully consider these things before taking profits after the last rally. The way I manage these situations is two fold : if its part of an asset allocation decision, stay with your investment through this cycle. Whenever you take a tactical call, first set a target before you invest. You hit the target, then exit. In general, I prefer to avoid tactical calls - I am more comfortable taking a long term view. For example, many of my clients got into debt funds in 2008 - they've all stayed invested and are currently getting a 10.5 - 11% CAGR on their holdings.

Equity Funds : I am bullish on equity markets with a 5 year view. We have to keep in mind that the next 1 year, in the run up to the elections, markets will be very volatile. But if you have staying power, equities appear the best asset class to be, going forward.

I prefer hybrids as a means of participating in debt and equities, Between MIPs and balanced funds, you get a choice of debt-equity allocations, to suit individual client needs. If clients have a 3 year plus time horizon, I am very comfortable recommending hybrids.

Major Ashish Chadha, Chadha Investments, Delhi



Gold : We have been maintaining gold allocation around 2% of portfolios - and we see no reason to move it either way.

Bond Funds : I am not a fan of long duration income funds. We segment fixed income funds exposure into 3 categories : gilt funds, medium term funds and short term funds. We were very bullish on gilt funds, clients have made a lot of money. But, at these levels, we have stopped recommending fresh allocations into gilt funds. At this time, medium term funds which focus on corporate bonds upto 3 years maturity look like a good bet. We don't recommend dynamic bond funds. We prefer maintaining the 3 buckets ourselves - gilt, medium term and short term - and advice clients accordingly.

Equity : Market valuations are half what they were 4 years ago and interest rates are coming down. Equities is the place to be in, going forward. What we buy today, we plan to hold onto till 2020. I am looking actively to introduce more risk into client portfolios - this is the time to do it. I am considering infra as a theme, I am bullish on midcaps. Our long term SIPs in large cap funds continue - there's no change in stance on these. But, when one is looking for incremental equity allocations, I am actively looking for higher alpha potential products. This is the time to get some of these into client portfolios.

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