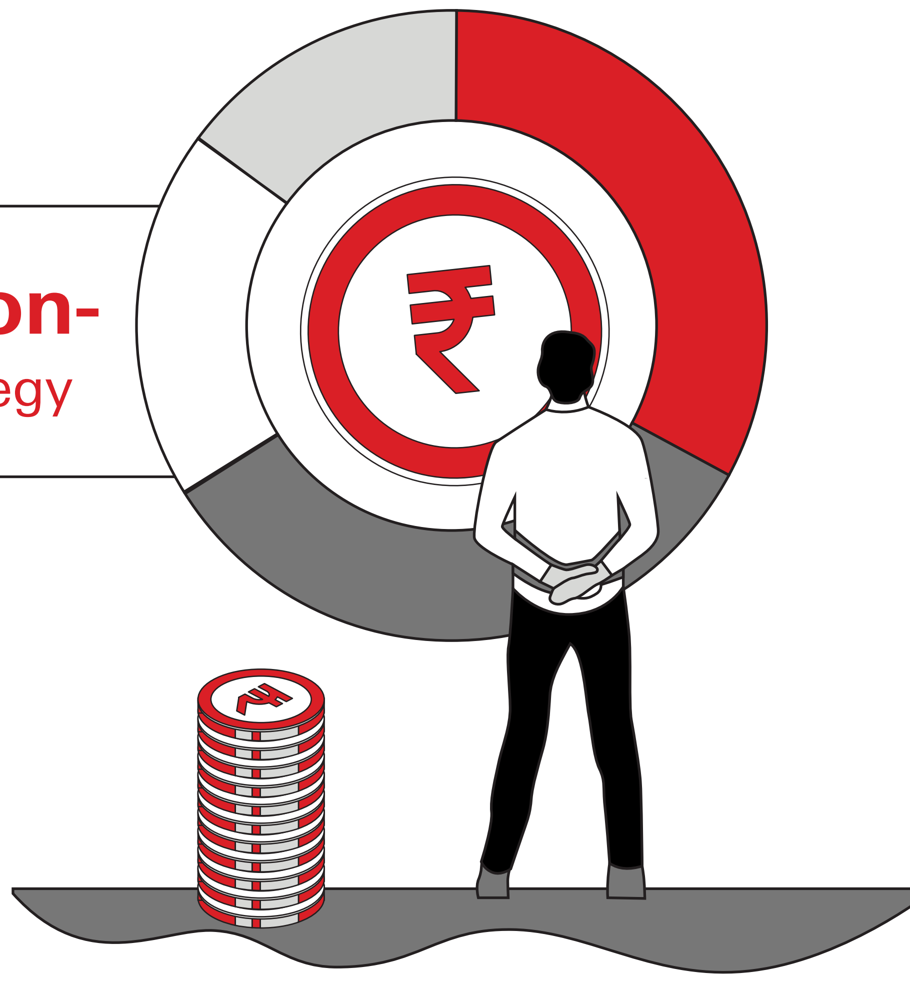
HSBC

Mutual Fund

Asset Allocation-
a Key Investment Strategy



Asset Allocation

Asset Allocation is the practice of diversifying investments amongst various asset classes like Equity, Fixed Income, Gold and Real Estate to name a few. It helps to reduce investment risk & reduces the dependency of portfolio performance on a single asset class.

Asset allocation is important as asset classes do not move in tandem

Let us look at the performance of various asset classes over the years:

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gold	25.5	24.4	23.3	32.1	12.5	-6.3	-6.1	-7.2	11.2	5.3	7.8	3.3
Equity	-51.8	75.8	17.9	-24.6	27.7	6.8	31.4	-4.1	3.0	28.6	3.2	12.0
Debt	9.5	6.6	4.7	7.9	9.1	8.3	10.5	8.7	9.8	6.0	6.7	9.5

Source: AceMF | Benchmark - Equity: Nifty 50 | Debt: Crisil Short Term Bond Index | Gold: Gold India Index | Yearly Absolute Returns in %

High | Low | Mid

As per the data, every year has a different asset class as winner. While predicting which asset class would perform well each year is like doing crystal gazing! Therefore, it's wise to divide your investment across asset classes so that outperformance of one asset class can offset the underperformance of others.

Benefits of Asset Allocation

- **Diversification:** Asset allocation helps by spreading your investments across various asset classes thereby reducing dependence on one particular asset.
- **Reduces risk:** Helps reduce or spread risk across different assets.
- **An all season strategy:** Proper asset allocation can help tide through different market phases with relative ease.
- **No need to time the market:** Even market experts can't time the market, having a right asset allocation can help us avoid timing the market.
- **Focus on goals:** When you have a proper asset allocation in place, you can focus on your goals and not on the market.

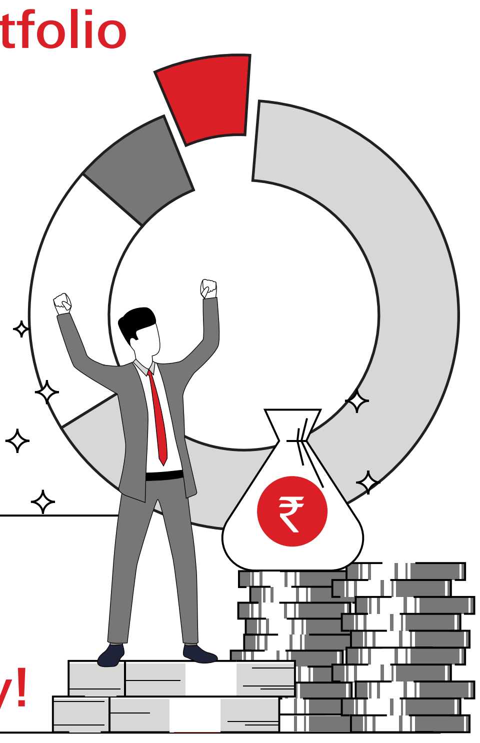
3 steps to construct an ideal asset allocation portfolio

1. List down your financial goals and prioritise amongst them
2. Decide on the investment timeframe or goal tenure based on your needs
3. Assess your risk appetite & set right expectations from your portfolio (from risk – return perspective)

Based on your goals, risk appetite & time-horizon, **diversify** your investment amongst different asset classes. Review investments periodically to bring it to the optimal level by **rebalancing** investments

Why do we need to rebalance the portfolio periodically?

Rebalancing the portfolio is required to keep the portfolio aligned to the desired asset allocation level. It helps to redeem profit from an asset class that has grown and deploy the money in other assets that have shrunk. Without periodic rebalancing, the risk in your portfolio increases overtime as allocation towards one asset class may significantly increase over others.



Aim to optimize returns & minimise risk by building a proper asset allocation strategy for you today!

To know more visit assetmanagement.hsbc.co.in