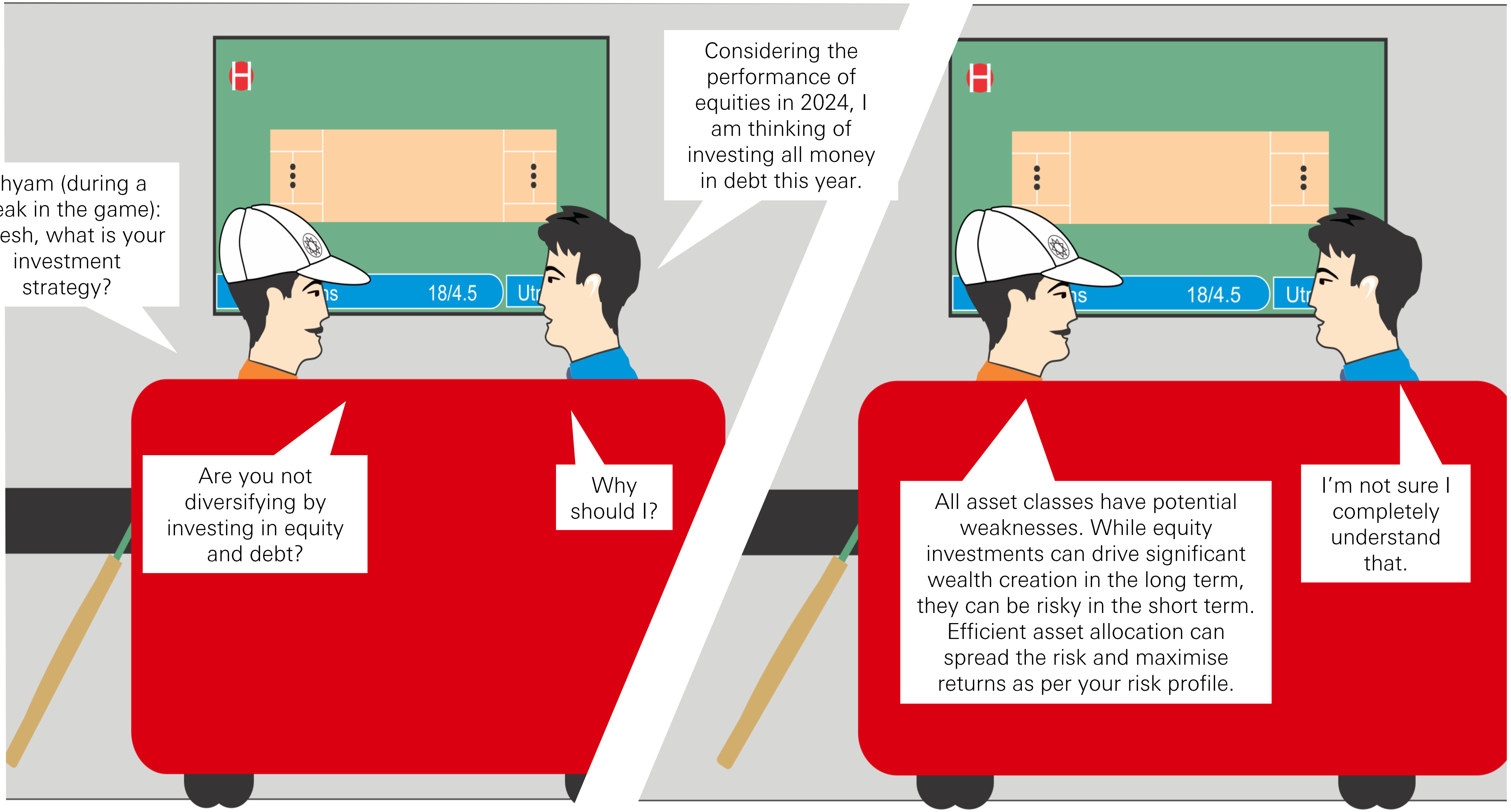
Striking the Right Balance: Asset allocation

April 2025

Diversify your portfolio to mitigate risks and maximise rewards

While watching a cricket match, Shyam gives Rajesh a low-down on investment strategy, using cricket as an analogy



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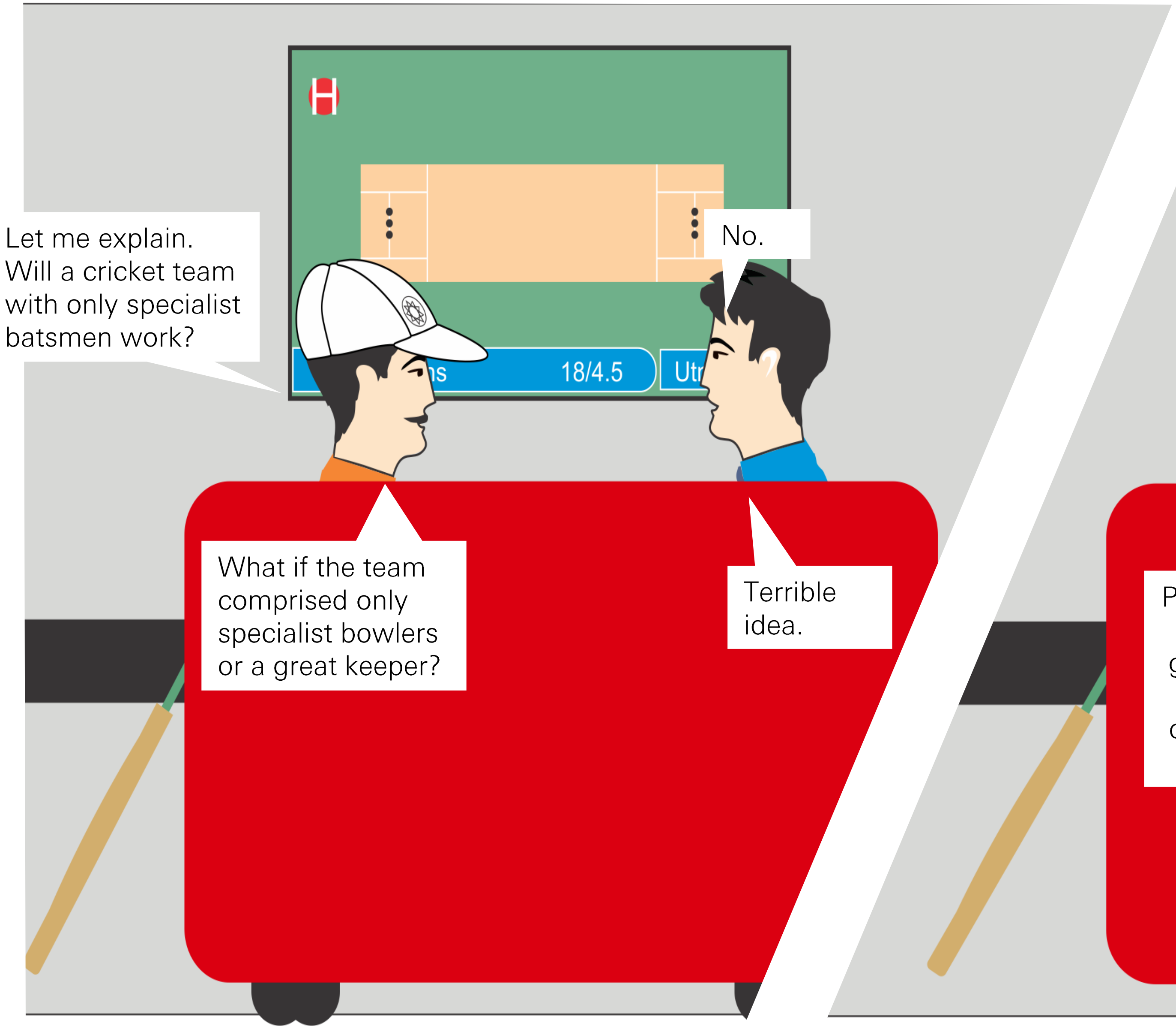
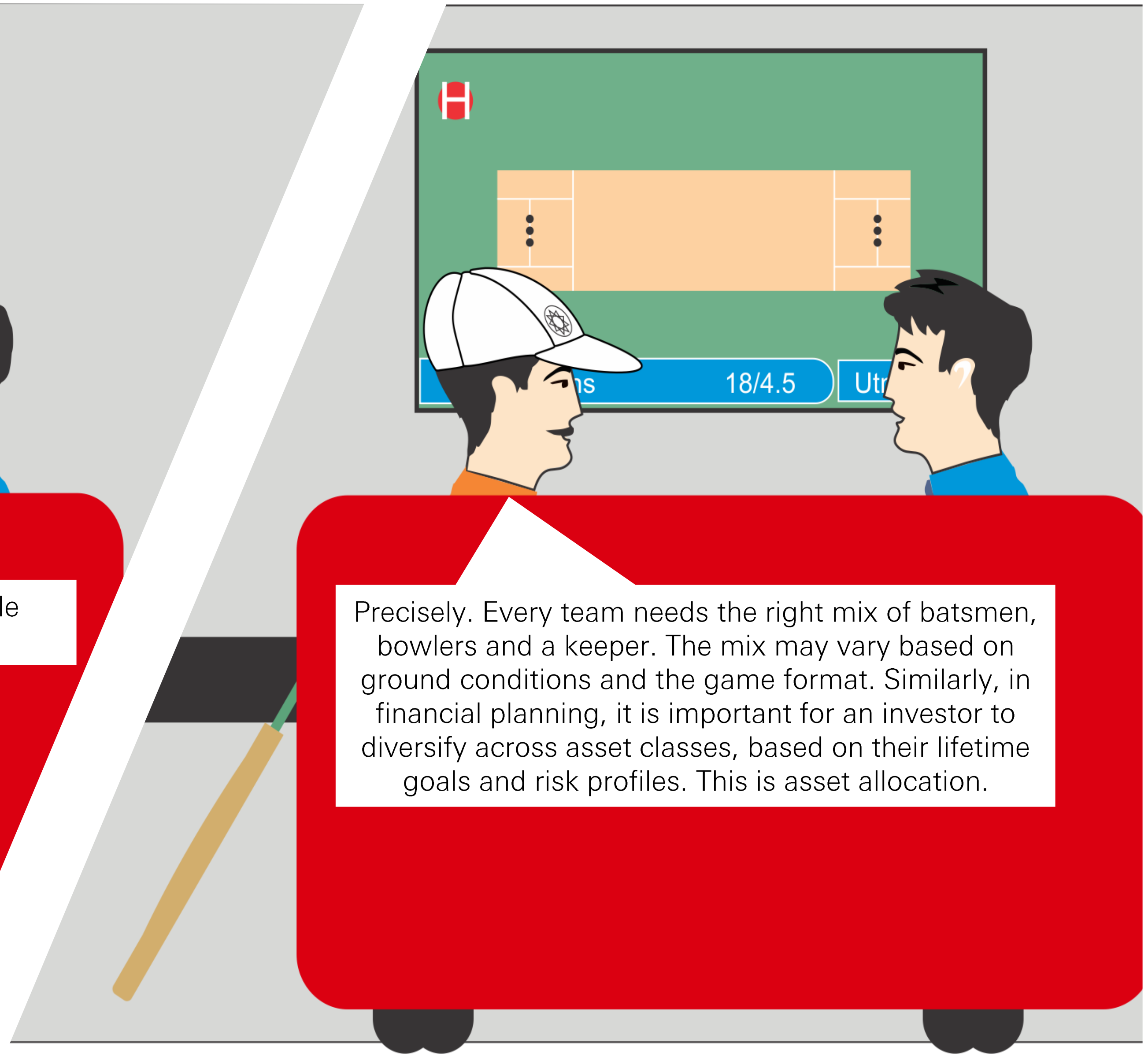
Asset allocation is imperative for successful financial planning



Just like a winning cricket team, diversify your portfolio



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Harnessing the power of asset classes in investment strategy

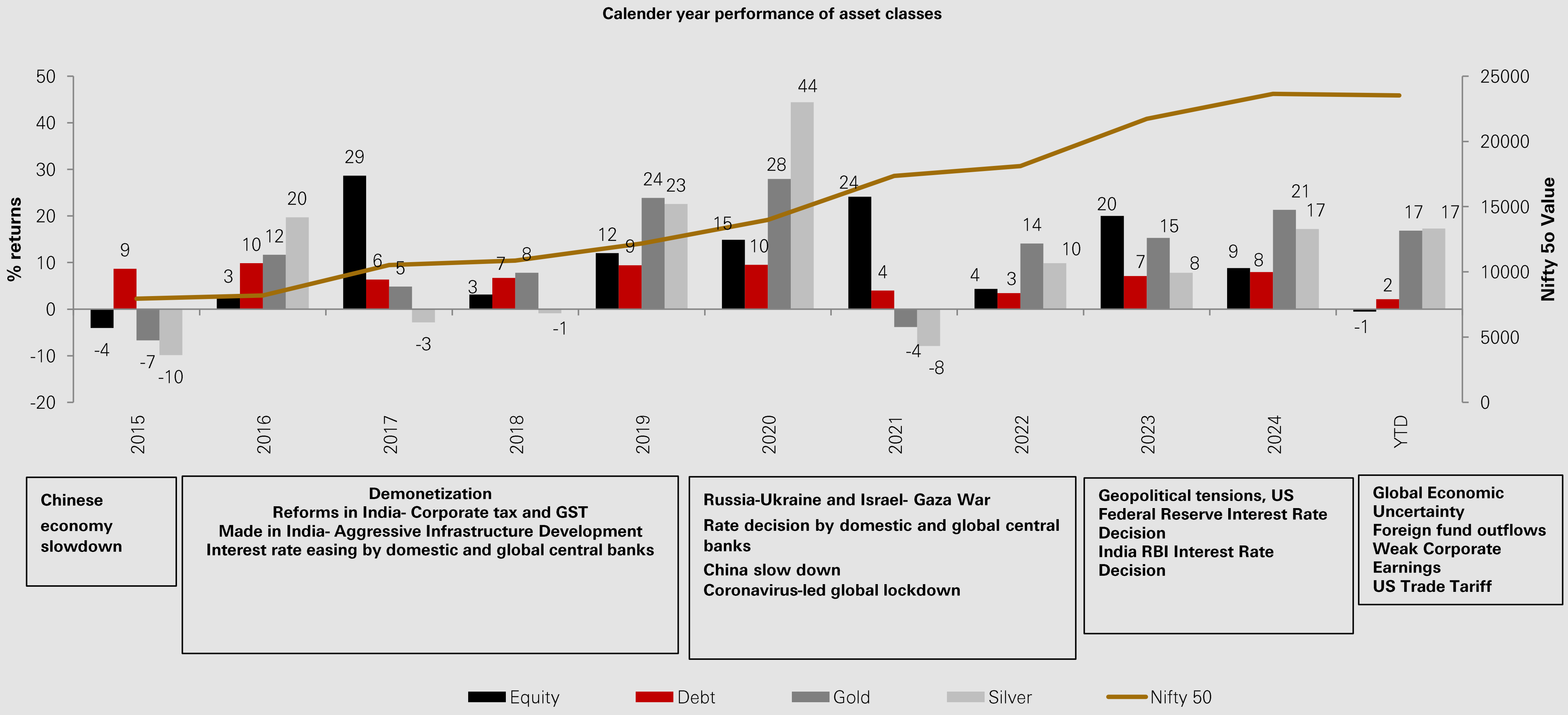
- **Building a balanced lineup:** Just as a cricket team needs a mix of batsmen, bowlers and fielders, a diversified portfolio requires a mix of asset classes such as stocks, bonds and commodities to balance the risk-return potential.

- **Strategic field placement:** Asset classes are like fielders in a cricket field, positioned strategically to anticipate the plays. Risk and return potential of asset classes vary, allowing investors to strategically allocate funds based on their investment goals and risk tolerance.

- **Teamwork and collaboration:** Just as a cricket team works together to achieve a common goal, a well-diversified portfolio harnesses the collective strength of different asset classes to withstand market volatility and pursue investment objectives effectively.

Strategic diversification

Diversifying investments across various asset classes is preferable to investing solely in equity or debt or commodities. Such a strategy will reduce the risk. Think of all 11 players on a cricket team taking up the responsibility equally.



Equity- Nifty 50, Debt- CRISIL short duration debt inde

Gold and silver returns are based on spot rates from India Bullion and Jewellers Association (IBJA) and MC

Source: NSE, CRISIL, Data as on 28 March 2025, Past performance may or may not be sustained in future and is not a guarantee of any future returns

Note-The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions

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Dependence on one wicket: Allocating funds solely to a single asset class is like relying on just one batsman. It is not a prudent strategy. If you have just one asset class, it may not garner efficient inflation and risk-adjusted returns.

Building a strong partnership: Just as different players complement each other in cricket, different levels of correlation among asset classes provide the portfolio an effective hedge, creating a strong partnership against market volatility.

Spreading the field: The basic premise of asset allocation is to spread risk from asset classes that carry higher risk to those that carry lower risk — like spreading fielders across the cricket filed to cover potential runs. Such a strategy in investment will maximise risk-adjusted returns based on your risk profile.

Crafting the winning XI: A winning cricket team is set up by selecting players based on their skills and suitability for a specific match. Asset allocation in investment is also similar. This strategy helps you determine how much of your portfolio can be invested in different asset classes, to arrive at a winning formula.

Further, allocation is not only between asset classes but also within asset class, such as adjusting the batting order in the game.

Chasing victory: Asset allocation can help meet financial goals and maximise wealth, much like a cricket team strategising to chase a target to win a game.

Asset allocation based on risk profile

Risk profiling is just like coaches and mentors assessing players' strengths and weaknesses.

Investors evaluate their risk tolerance to allocate funds in various asset classes strategically — like players assessing their strengths to play specific roles in a tournament.

Risk profiling of investors is done using a questionnaire that gauges their goals, risk tolerance and investment suitability.

Seeking professional help

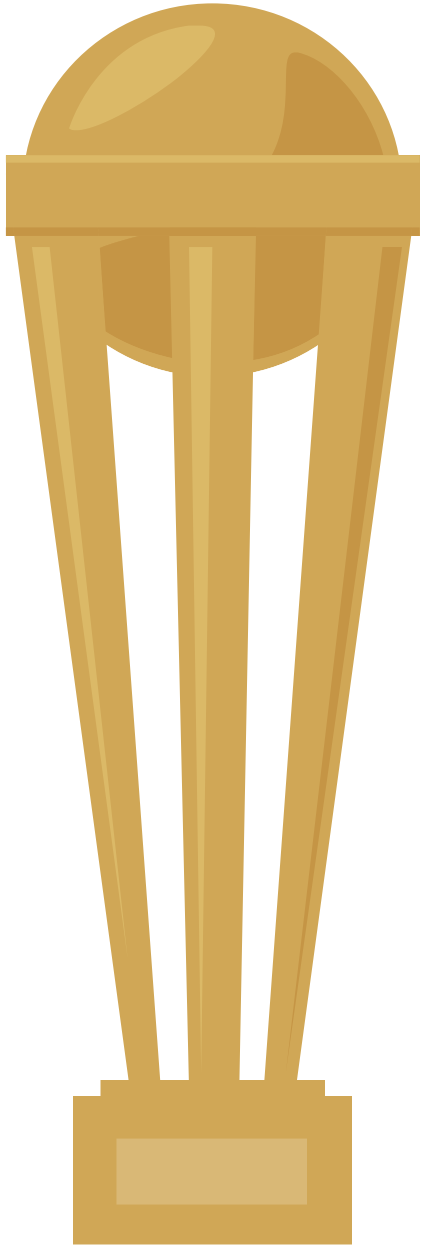
Can a cricket team do without a coach's strategic guidance? No. The same way, professional help is crucial for making right investment decisions.

That's because investors, most often, lack the expertise to manage and diversify their assets effectively.

Mutual funds are such professional entities that offer the following solutions:

- **Professional management:** A dedicated team assesses market opportunities
- **Research and credit function:** Independent research supports investment decisions
- **Focused risk management:** Helps mitigate risks associated with different asset classes

Takeaways



Asset allocation impact

- Reduces volatility
- Encourages stable investor behaviour and potentially provides better results
- Rebalancing – a key supporting factor

Asset allocation is an excellent tool to address volatility in investment markets

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