



HOW TO REVIEW YOUR INVESTMENT PORTFOLIO AND HOW IS IT IMPORTANT

Jan 15, 2023 | 5 min read

In reality, we review our investment portfolio by checking the volatile investments from time to time – be it in an app or a webpage. We rarely revisit our fixed-income investments, except when they are up for reinvestment, or when we are filing our tax returns. But, we can adopt a step-wise plan to review our investment portfolio from time to time.

Performance check

This is where you check the return on your investments and the progress made towards your goals. This can be a combination of your current portfolio balance and your savings rate. The portfolio must be delivering returns that are required to reach the financial goals. Earmark the assets that are performing below par for further action. Secondly, your savings rate should be on track to accumulate the desired corpus, be it a medium-term financial goal, or your retirement corpus. Again, if you are not saving enough you need to increase the same to the desired levels. Combining these two aspects will give you a holistic view of how closer you are towards your investment goals.

Asset Allocation Assessment

Once you've reviewed the performance of your overall plan, assess the individual assets in your portfolio. This includes a relook at the total portfolio mix viz. stocks, bonds, gold, commodities, cash etc. You can then compare your actual allocations to your targets. You can also use asset allocation benchmarking tools and models to define your target.

Apart from performance, age is another factor that defines the asset allocation changes in your portfolio. Equity overweighting is normal among younger investors who have decades until retirement. But if your portfolio is equity-heavy and you're within 10 years of retirement, you must de-risk the portfolio. This would involve shifting funds from equities to bonds and cash.

Attention to cash

Once you are done checking your portfolios' long-term asset allocations, also pay attention to your liquidity position. For an employed or earning person, at least three to six months' worth of livelihood expenses in cash is recommended. Higher-income individuals or freelancers should maintain a year or more worth of expenses in cash. Similarly, retired people can keep an emergency fund of six months to two years' worth of cash investments.

Financial emergencies can put a dent in your portfolio. So, maintaining sufficient cash should be considered a part of portfolio management.

Assess and manage risk factors

Check your portfolio's risk exposure from time to time. Changes in the geopolitical scenario and economic conditions can call for a readjustment in your equity portfolio. Interest rate changes can similarly make you rethink your fixed-income investments. If the interest rates are free falling, you may have to consider shifting investments to a higher-income asset. Avid investors also need to reconsider hedging strategies from time to time to keep their portfolios in sync with market conditions.

Inflation Protection

Inflation has been maintaining a high rate globally until the central banks intervened with a series of aggressive interest rate hikes. During inflationary conditions, you must consider inflation hedging with investments in assets like gold and inflation-beating stocks. Gold is a preferred choice for investors when it comes to seeking a hedge against inflation. You must also ensure that your fixed-income investments are beating the inflation rate.

Tax Management

It is common knowledge that investments can help you save taxes. Fixed-income investments like PPF and NSC, and equity investments like ELSS are eligible for tax deductions. In other words, review your portfolio from the perspective of tax saving too.

Tax management is also important while booking your profits as well. You must consider the income tax implications of any asset sales and investment redemptions made during the year. While we now know how to review our investment portfolio, it is also important to know the benefits of doing so.

Identifies Poor Performances – A timely portfolio review helps you identify underperforming assets in the portfolio. You can also readjust your asset allocations if there are any changes in your financial goals. For instance, if one of your medium-term goals is no longer relevant, the investments made towards it should now be channelised towards your retirement corpus.

Investment Duplications – A portfolio review can identify assets that are the same or similar. It could be investments in mutual funds and direct equity investments in the same stock or industry. Identical savings plans are another common example of duplication. Such investments must be identified, and funds should be released to enhance portfolio diversification.

Fund Utilization – If you have funds ready to be allocated, a portfolio review will help you identify areas where you can afford more investment. If you have any asset category where you would want more investments, you can invest in it. Investing funds without proper portfolio review can lead to duplicate investments and an imbalanced portfolio structure.

Tax savings – As mentioned earlier, there is a connection between portfolio review and tax planning. With many investments qualifying for tax benefits, ideal tax planning cannot be completed without a portfolio review. How about investing in an ELSS rather than a similar mutual fund without the tax benefit? If you plan to save an amount in fixed deposits for the medium term, why not go for the five-year tax-free FD?

To sum up, it must be mentioned that a regular portfolio review is a systematic and simple way of ensuring the fitness and efficiency of your investments. It ensures that there is a timely intervention in the portfolio structure if and when required. You can always take the advice of a consultant to keep your portfolio and its return risk-adjusted and optimal.