



# BALANCE IN INVESTMENTS

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The first step in financial planning is to earn some money and not spend all of it. This challenging yet crucial activity is popularly known as saving. If you manage to save a portion of your income you are doing the right thing.

The next step in your long financial journey is to put the money in places where it grows most and stays safe too. In other words, maximise the returns while keeping the investment risk within your tolerance. To achieve this, you must diversify your available fund among different investment options and asset classes. With these steps, your investment portfolio comes into shape, with investments in various assets and for different periods.

However, if the portfolio is lopsided, your investments may not generate the expected returns. Or if the investments made are too volatile, you may be exposed to excessive market risks. This is why Balance in Investments is important.

## Why Balance in Investments Must Be Maintained

The investments and assets you selected a few years ago may have been the best decision then. However, the financial market and the global scenario, in general, are dynamic. The meaning of best investment gets redefined from time to time. Your portfolio must be able to adapt to changing global conditions.

An investment portfolio must be flexible so that you can incorporate changes in your financial goals, lifestyle needs and aspirations. Whenever there are changes in your income flow or expenses, the investment pattern will change. This, too, would call for a balancing of the investments. Besides, portfolios lose their natural balance over time which necessitates the need for balancing.

## How to Keep Your Investment Balanced

The primary task involved in balancing a portfolio is to monitor the risk and return of the investment assets. Your investment in the stocks of a blue-chip company may need reconsideration if the company is losing its ground in the market. Your investment in a debt mutual fund may similarly need a relook if interest rates are falling.

Balancing is required in both of these situations. The poor recent performance of a stock increases your risk in the investment. If the company liquidates you may lose all or lot of your money. In the second scenario, there is no change in the risk level, but the return from the investment has significantly reduced due to the lowering of interest rates by the RBI.

In such scenarios, you must identify alternate investments that are less exposed to risk or are generating higher returns, depending on what your expectations are. You must then withdraw the money from your existing investments that are underperforming or exposed to higher risk.

## When to Balance your Investments

An investment portfolio must be monitored from time to time. Rebalancing should be planned at regular intervals. For instance, you may schedule a quarterly or annual review of your investment portfolio. However, if your portfolio mix is static the need for review may not be frequent. If your portfolio mix is dynamic and you regularly tinker with it, the rebalancing approach will differ. You will have to decide on a particular asset mix and rebalance your portfolio as and when such asset mix deviates. For instance, let us assume that your ideal mix is 60% in equity, 30% in debt and 10% in gold, or investing in the arts. If your gold investment is 7% and equity investment is 63%, then you can liquidate 3% equity holding to increase your investment in art or gold, and maintain the ideal asset mix.

## Finding the Perfect Balance

Finding perfection in the balance investing in your portfolio is a difficult ask. There is no one-size-fits-all when it comes to designing an investment portfolio. There are rules of thumb in investing that people refer to. For instance, the rule of 110 says that your equity investment as a percentage should be 110 – your age. If you are 40, your equity investment should be 70%. Surely that can't be true for everyone. However, given the complexity involved in arranging the wide range of investments, people tend to lean towards thumb rules.

The perfect balance is unique to each investor, depending on the person's risk appetite and investment objectives. For example, if you are a moderately conservative investor, your short-term investments would almost entirely comprise debt investments including the various bank investment types. Medium-term investments made for a period of eight to ten years can have an equal allocation between debt and equity. Your long-term investments can include even 75-80% equity investments, as these investments are likely to outlast occasional market ups and downs and generate long-term returns.

## Conclusion

While designing, balancing and rebalancing your investment portfolio you must consider your investment objectives and timelines while choosing the assets. Your risk appetite and return expectations are just as important in these decisions. Always seek expert help to get a more seasoned perspective on the market and the world of investing. With professional guidance and clarity of purpose, we hope your investment portfolio fulfils all your financial aspirations.