Invesco Mutual Fund

Viewpoint: The Balancing Act

From the desk of Taher Badshah, Chief Investment Officer - Equities

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We all strive to strike a balance across various aspects of our lives – work & life, diet, spending habits etc. We value our work and our families equally, and so try to maintain a balance between the time spent at work and at home. We value health, which is why we make sure to not only consume a balanced diet but also try to strike an equilibrium between our work and workouts. Likewise, money management is our key priority area too, which we try to manage by maintaining an equilibrium between our spending and saving habits.

In nutshell, the act of balancing is integral across our routines. But does it apply equally to our investment habits too? Indians are known to be good savers globally and have a comparatively high savings rate vis-à-vis many developed countries. Sadly, however, the buck just stops here!

Despite our good savings' habits, our investment habits are nothing to boast about. Come to think of it, how many of us allocate our investments across different asset classes to balance out asset-specific risks? Barely few…

For some it could be the paucity of time while for some others lack of awareness about other asset classes. Besides, there is also a certain degree of lethargy when it comes to financial planning, not to mention, the resistance to leave the cocoon of our respective (investment) comfort zones.

Several investors, I meet and interact with, do not tire defending the asset class they are comfortable with. And choices here are far extremes! Those comfortable with equity, for instance, seek solace only in equities while those habituated to invest in fixed income products are equally biased. What surprises me further is that there is hardly an afterthought to the repercussions of holding such biased investment theories.

In fact, many equity enthusiasts, attracted by the prospects of large returns from equity, are simply oblivious to the need of providing stability and downside protection to their high-risk equity portfolios. Likewise, the patrons of fixed income are equally unfazed when questioned about the prospects of long-term wealth creation from their simple fixed income investment set-up. Call it ignorance or indifference, but such behavioural extremities can severely impair the overall well-being of investment portfolios.

Now, it is well-known that equity is for creating wealth over long-term and fixed income for stability and consistency. But essentially it is the balance between the two asset classes that helps in maintaining an equilibrium between risk and reward matrix.

Market today is flooded with investment products, both in equity as well as in the fixed income domain. And we have always advised investors to allocate their investments to both these asset classes in proportion to their risk-taking ability. Besides, Investors who may either be unware or unsure of these offerings could also do well to consider hybrid products instead, that blend both equity and fixed income instruments in a single offering. Whatever be your choice or mode of investment, what is important is to ensure that your investment allocation evenly balances out risk and reward.

Here, I am reminded of a popular quote by the noted author Colin Wright, who once said, '*Extremes are easy, strive for the balance*'! And this is precisely what I advocate to my investors, '*Balance it out before it's too late, judiciously manage your portfolio, do not leave it to fate'!*

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