

## Asset Allocation



A financial plan is actually simpler to make, but can get tough to implement. This is because investment choices tend to come with their own trade-offs that are difficult to take. An asset allocation strategy can help in making some of these tough decisions.

### Target return



Every financial goal needs funding. If you need Rs.10 lac in the next 15 years for your child's education, setting aside Rs.1,000 a month in a PPF may not be enough. You will need to understand that your investment needs to grow at a higher rate to meet this goal, or you may need to set aside more if you like to stick to PPF.

### Risk-return trade-off



Every investment choice comes with its risk and return. Equity features a higher return over the long run, but can be risky in the short run. Debt instruments may provide a stable, but low level of return. The choice of investments for a goal needs to consider these trade-offs.

### Needs and cash flows



Some investments such as equity provide little income, but enable growth; some investments such as deposits, do not grow in

value, but generate regular income. Some investment such as mutual funds, can be withdrawn at any time; some investments such as PPF need a longer staying period.

### Asset allocation



Strategic asset allocation is the combination of various investments aligned to the goal of an investor. A 50% investment in monthly income plans, for a retired investor is aligned to his need for a regular income and for protecting capital.

### Diversification



An asset allocation plan considers the reality that all investments may not perform to their best at all times. When one is up, another may be down. Holding all one's money in equity may generate a good return in a bull market, but may lead to huge losses when markets correct.

### Tactical allocation



Some may hold a bit more of equity when the market runs up;

### SMS CONTEST

#### Question

To alter the allocation according to a view on an investment option is called \_\_\_\_\_.

#### Answer

- A. tactical allocation
- B. strategic allocation
- C. diversification

To answer, SMS DISHA A, B or C to 53030 and win a 2N 3D holiday.\* Contest open for the day of publication.

\*Terms and conditions apply. Visit [www.icicibank.com](http://www.icicibank.com) for details and winners.

### DID YOU KNOW?

The most preferred investment choice for households in India is bank deposits. On an average, about 45% of their savings has been in bank deposits.

### FAQs

**How can one allocate to investment options without knowing what to expect?**

Investment options that have been available for a long time have their risk-and-return history. When we look at equity markets, we know there are bull and bear markets. We also know that in the long run, the return to expect is 15%-20%. Allocation has to be based on long-run averages, not recent returns alone.

**Why should I hold something that provides a lower return at all?**

When markets were up, many held equity. Now that they are correcting, people like to hold deposits and safer investments. If the balance between the two was maintained even in a bull market, the investor would have had lesser risk and lower losses.

### Centre for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at [www.icicibank.com](http://www.icicibank.com) or send as an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

SMART BANKING

Plan your expenses.



Planned expenses help you fulfill your dreams.

ICICI Bank