ICICI BANK CUSTOMER FIRST SERIES

A consumer education initative

TIMES BUSINESS ASSOCIATE COMMUNICATION

Asset Allocation

Fitness experts advocate life style changes for sustained good health. Fad diets may be a short-term fix at best, they warn. That is so true about financial planning as well. Having a saving and investment plan that is aligned to what can be done over a long term is a great way to implement a financial plan.

Asset Allocation

The diet and exercise plan for investments is called asset allocation. It tells you how you should apportion your investments across various investment options. If you are saving for retirement and would like your savings to grow over a long period of time, you will allocate a higher proportion to equity instruments.

Risk and Return Trade-off

If fruits help you keep lean, they also keep you hungry; if *samosas* make you feel good, they also add to calories. Choosing from various options is always a trade-off. Some investments have a very low risk, like say a public provident fund, but feature a 15-year period. Some investments may provide a higher return and liquidity like equity, but may be risky over short periods. There is no ideal investment that is low risk, high return and very liquid. They have not still found the diet pill that needs no workouts.

Historical Performance

Various investment options have their own history of performance, and information about what to expect is widely available. Just as information about the basics of the various food groups is known. We know that equity may provide a long-run return of 15%-20% and that debt instruments may provide about 8%-10% and so on. We can use this basic information to anchor our allocations.

Tactical changes

Who does not cheat on a diet plan, yielding to temptation? So do investors move away from their allocations. If stocks are up 35% in a year, they are tempted to put more and more in equity, to make that gain. Such changes to their investment patterns as tactical. They need to revert to the original allocation, to keep to their goals. If cheating on diet becomes a daily routine, there will obviously be no progress on the fitness goals.

To make an asset allocation plan is to have a programme for implementing our financial goals. This needs to be done with an eye on financial goals, and not merely immediate gains. As our goals change, we will need to review and revise the plan, as we will see next week.

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 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.

SMS CONTEST

Question

If an investment features a high return it is likely to also feature ________________.

Answer

A. high risk
B. high liquidity
C. high tax liability

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.dishaic.org for details and winners.

DID YOU KNOW?

Many households choose low return investments and fall short of financial goals, as they are unwilling to take any risk.

FAQs

Should I choose between equity and debt? Can I not have both?

Yes, that is what asset allocation is about. If your goal needs a higher growth than what your favoured debt instrument can provide, you need to add some equity to your portfolio. You may be able to increase your yield, without taking too much of risk on equity.

How much should be left in the bank for sudden needs?

It is advocated that every plan must allow at least 3 months of income, to be available for ready use, if there is an emergency. Such amounts can be kept in savings accounts or in short term deposits that can be drawn at short notice.