

The Economic Times

Title : WHAT SHOULD INVESTORS DO? - Book Some Profits to Balance Your Portfolio

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Location :

Mumbai:

Article Date : 09/02/2014

Is it a good time to take home some profits from equities? Investors are asking this question as the Nifty crossed 8000 for the first time on Monday . While the general consensus is that India may be at the start of a long-term bull run, wealth managers feel investors can afford to trim a bit of their exposure to stocks as part of their portfolio rebalancing.

In the past one year (since August 31), the Nifty is up 44%, gold is down 14% and fixed income (short-term bond funds) have given returns of 10.88%. Due to the surge in the stock market since mid-February , an investor, who had allocated 70% to equities, 20% to short-term income funds and 10% in gold a year back, would see his allocation to equity rise to 77%, debt would fall to 16.5% and gold to 6.5%.

Since the investor's asset allocation has increased by 10%, financial planners suggest booking some profits in equities to maintain it and reduce the overall risk to his portfolio. "When any asset moves up by more than 10% of the initial allocation, rebalancing could be considered," says Rajesh Saluja, CEO, ASK Wealth Advisors.

Wealth managers said sticking to an asset allocation plan is crucial to achieving financial goals. This approach reduces risk on the portfolio too.

"Book profit in equities to the extent of getting back to your original allocation of 70%," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Investors can sell some mid-cap and small-cap stocks where valuations have moved ahead of fundamentals. "Within equity , one can look at quality large-cap stocks as the valuations are in their favour as compared to mid-cap stocks," says Nilesh Shah, MD & CEO, Axis Capital. For example, stocks like Reliance Industries, ITC and HDFC Bank, which have not moved in the current rally , could be held on. Investors could sell overvalued stocks from infrastructure, power, real estate sectors. Stock prices of companies like Suzlon, Lanco Infra, GVK Power have moved up since early this year amid the election euphoria. But, now, a lot of these stocks are overvalued because their earnings are yet to catch up with the runup in their share price.

Wealth managers said investors could consider using the sale proceeds from these stocks to invest in short-term income funds. These funds, which are meant for investors who wish to hold on to these investments with a six-month-to-one-year perspective, give twin benefits of attractive yields and capital gains if interest rates fall. As and when short-term interest rate falls, these funds can see returns kick in the form of capital appreciation, in addition to the ongoing attractive yields of more than 9%.

However, wealth managers said investors with low or no exposure to equities should consider staggering investments in equities over the next six months.