INVESTMENT NAVIGATOR

Building a recession-proof portfolio

—Vishal Dhawan

OVER the last few weeks, clients have been asking me "Should I reduce my equity portfolio?", "Fixed income is giving higher returns and is safer, should I invest there?" and other such questions indicating a gradual slide in confidence of most Indian investors. Contrast this to the situation about six months ago, when most Indian investors were extremely confident about the future growth potential that India had to offer. They were willing to take high levels of risk in their investment portfolios to take advantage of the benefits that could come with this high growth.

Whilst concerns have started to emerge over the last few months on the growth rates of the Indian economy due to domestic and international factors, we believe that investors are now getting overly pessimistic about the future of India. The most pessimistic estimates that are currently available still show growth rates in excess of 7 per cent p.a., making India possibly in the top 2 to 3 fastest growing economies in the world.

Given this background, one might ask "What should I do in such a scenario?" Here are 5 things we suggest that you do to make your investment portfolio recession-proof:

1. **Revisit your financial goals**—There is a tendency to invest without any particular financial goals in mind amongst a large number of investors. Investing without discussing your financial goals with your investment advisor is a bit like getting into a taxi and not telling the taxi driver where you want to go. Clearly list your short-term and long-term financial goals—be it a foreign education for your child or a new home purchase. In case any of your goals are likely to come up over the next 24 to 36 months, ensure that the funds required for these goals are in fixed income instruments like bank deposits, short-term mutual funds or liquid funds. If your financial goals are long-term in nature, you need to ensure that your overall asset mix is appropriate for your targeted portfolio returns, and rebalance if necessary.

2. **Ensure that your portfolio is truly diversified**—Having 50 stocks in the portfolio or 30 equity mutual funds or 3 investments in real estate in a single city is not true diversification. Essentially, your portfolio should have a blend of investments that behave differently in different situations so that your overall portfolio risks are controlled. For example, a real estate correction in Mumbai may not necessarily lead to real estate prices falling across India.

3. **Understand that the house that you live in is not an asset and what you spend on it is an expense, not an investment**—Most people are unable to downgrade or trade down their homes during difficult times, making it unfair to compute it in your net worth in our opinion. Whilst a roof over your head is critical, what it costs is also very important. Therefore, be careful about how much you stretch on the EMI for your primary residence, especially in an inflationary environment where interest rates could rise significantly. Besides, only a few home improvements actually increase the financial value of your home, so spending on home improvements needs to be controlled just like your other discretionary spending.

4. **Ensure that you have 10 per cent of your portfolio in gold**—With gold prices close to lifetime highs, a large number of investors who do not have gold in their portfolio are very hesitant to include the yellow metal at these prices. Gold needs to be viewed as a protection for the rest of your portfolio. If you are hesitant to buy gold at these prices, you could consider a systematic exposure to gold through using Systematic Investment Plans (SIPs) in gold mutual funds.

5. **Prepay your loans**—With returns from fixed deposits, fixed maturity plans and short-term bonds at attractive levels, it is very tempting to lock in monies at these rates. If you have outstanding loans, restrict your fixed income exposure to emergency funds and use excess funds to prepay your loans. Remember that most loans tend to be reducing balance in nature whilst returns from fixed income instruments are compounded. You may therefore need to take the help of your financial planner to decide whether to prepay your loan or buy that fixed deposit or mutual fund instead.

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Vishal's rich experience of 15 years in the financial services industry has led him to frequently write columns and appear on television, including CNBC and Bloomberg UTV. He shares his insights and views in various leading publications, including the **Wall Street Journal, Economic Times, Indian Express, Reader's Digest, ET Wealth, Asian Age** *and* **Deccan Chronicle.** *He is also a member of the Financial Planning Association, USA.*

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