Don't act on impulse during chaotic times

GET PERSONAL

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in turbulent times

OVER THE last few weeks, international events have dominated the headlines with the natural disaster and its nuclear fall out in Japan causing panic in global financial markets, the West Asian crisis driving oil prices upwards, rating downgrades in Europe, news of China slowing down as per their next five year plan and mixed numbers from the US, leaving investors confused.

With the significant integration that has happened in financial markets over the last few years, tracking each of these events and its implications on your portfolio is becoming an extremely challenging task. While the most common reaction to each of these events is to act immediately, we believe that most immediate reactions on the basis of news flows ends up being sub optimal.

Think back about the investors who sold their portfolios in 2004 due to election results not being in line with what they had expected. The Sensex is up more than five times from those election day results. So what should investors do?

◗ Revisit your financial goals — If your financial goals are more than five to seven years away, it may be prudent to do nothing as most events of this kind do not impact long term portfolios immediately. However, there is clearly a need to analyse each of these events to understand whether they can have long term impacts on your goals. If all of this sounds too complex, take the help of an expert who can give you an overview of the impact of these events on your portfolio.

◗ Brace yourself for higher inflation — As oil prices move upwards due to the West Asian crisis and commodity prices start to move up once again as Japan tries to rebuild itself, get ready for high inflation rates. Prepaying loans and adding commodities — agricultural, industrial and precious metals, to your portfolio would be good ideas in a high interest rate environment.

◗ Focus on track records — While it may be tempting to add the most exciting idea to your portfolio at this point as prices have fallen, it is extremely important to have your monies in investments that have track records over long periods. Whether it is mutual funds or large company stocks or developers with property under construction, focus on names with track records. Stay with the tested in these times.

◗ Avoid getting too pessimistic or too optimistic – Emotions tend to swing wildly when asset prices swing either way. Avoid the temptation of getting too greedy when prices are up or too fearful when prices are down.

◗ Build truly diversified portfolios — Having a few dozen equity mutual funds and stocks and bank deposits in multiple banks does not necessarily create a diversified portfolio. Look for a greater degree of diversification — for example, adding international exposure to a domestic portfolio, debt mutual funds to a fixed deposit portfolio. Diversify across multiple asset classes.

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