Sort out investment portfolios for gains

GET PERSONAL

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- Clean up and rationalize your portfolio
- Separate your trading portfolio from your investment portfolio
- Create your portfolio keeping stock / sector weightages in mind
- Brokerage rates should not decide your broker/ advisor

WITH THE Coal India IPO generating significant listing gains for investors, and the Indian markets continuing to hold above 20,000 on the Sensex and 6,000 on the Nifty, there may be a sense of feeling left out of the "India growth story" amongst a lot of Indian investors over the last few months.With memories of the big correction in equity markets still fresh in the minds of Indian investors, there has been a steady decline in holdings by individual investors in equity – both in their direct equity portfolios and mutual fund holdings. This has also been accompanied by investors awaiting a correction to enter/re-enter the markets, which has been elusive thus far. We think it's a good time for investors to revisit their equity strategy at this point and get clarity on how they wish to participate in the wealth generation potential that the Indian economy and equity markets present over the next 10 years.

Clean up

As a part of the clean-up ritual that accompanies Diwali, we think it's also a great time to clean up equity portfolios. We have found that investors continue to hold on to losing stocks till they recover their purchase price, which should not drive their hold/sell decisions. Sell all the holdings that you are not willing to buy afresh. Sell all components of the portfolio that do not have at least a two per cent weightage in your overall portfolio, as the gains/losses from those stocks are unlikely to have a material impact on your overall portfolio.

Core and trading portfolios

Most investors do not separate their core portfolio that is being created to meet longer-term financial goals, from their satellite portfolio that is being created for short-term tactical gains. As a result of this, core/investment portfolios tend to be sold when markets move up while satellite/trading portfolios tend to be held for longer periods, especially if they are below purchase price. It is crucial to clearly distinguish these two portfolios and run each of these portfolios as per their respective strategies. Take professional help if you are unable to do this yourself. Avoid buying on tips/SMSes and understand what you are putting away your hard earned money into, even if you are buying shorter term. Think about it — would you not check on the best option for your flight to Dubai versus your flight to NewYork, just because the flight is shorter?

Scientific weitages

Remember the hottest sectors of this decade, technology in 2000 or real estate in 2007. Investors were highly overweight in these sectors during this period and lost significant amounts of money. No single stock should exceed 15 per cent of the portfolio and no single sector should exceed 25 per cent of the portfolio in our opinion. At the same time, take meaningful exposures to stocks that you buy so that the overall portfolio impact of the purchase can be significant. Ensure that each stock that you buy for your core portfolio has at least a five per cent weightage. Empirical evidence indicates that there are no significant benefits of diversification beyond 15-20 stocks in a portfolio.

Brokerage

Pay your adviser according to the advice and services that he provides, so that he does not churn your portfolio unnecessarily. Share your complete portfolio with your adviser, so that advice given can be holistic.

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