Consolidate money during slow times

GET PERSONAL

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TO-DO LIST

- If you have certain short-term goals, you need to park some money in fixed deposits.
- Gold protects your overall portfolio. So earmark 10 per cent of your funds for buying gold either directly or through SIP.
- You can prepay outstanding loans by using excess funds.
- Keep some money handy to buy blue chip stocks in case of a sharp correction.

You have been probably watching reports over the last few days indicating a slowdown in the Indian economy. Some of the lead indicators like automobile sales also seem to be pointing towards that.

While this possible slowdown may have created a certain level of anxiety, you need to remember that the slowdown that is being referred to, still estimates a growth rate of seven per cent to eight per cent per annum, projecting India as one of the fastest growing economies in the world. Other parts of the world including Europe and the US which have a slow paced growth, are exhibiting signs of a further slowdown. Lets take a look at the options available to you during the slowdown.

Revisit your financial goals: In case you have any of your goals that are likely to be reached over the next 24 to 36 months, ensure that the funds required for these goals are in fixed income instruments such as bank deposits, short term mutual funds or liquid funds. For example, if you have been saving up for the down payment of a home or sending your child to his or her college of choice in the immediate future and have the money in equities, you do not want to jeopardise that plan due to a sharp stock market correction. 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.

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 gold into their portfolios 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.

Prepay your loans: With returns from fixed deposits, fixed maturity plans and short term bonds at attractive levels, it is very tempting to lock your money 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 of the loans tend to be of the reducing balance in nature while returns from the 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.

Keep some money handy for a sharp correction: In case there is a correction in excess of 10 per cent in the equity markets, make sure that you have some cash handy to increase your equity exposure through buying blue chip stocks, index funds or diversified equity funds with good track records.

Keep adding if the markets fall beyond that as well, so that you can get the benefit of lower equity prices for your long term equity portfolio.

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