INVESTMENT NAVIGATOR

Na jaane kyon, hota hain yeh zindagi ke saath......

—Vishal Dhawan

AS I hurried past ground zero in New York where the Twin Towers stood before the planes crashed into them on September 11, 2001, I paused for a while to reflect on how the world has seemed so much more unsafe after 9/11.

In much the same way, financial markets have not remained the same after the events of 2008, when they saw a significant fall after the collapse of Lehman. Every piece of bad news, whether it is a rating downgrade like that of the US which took place a few weeks ago, or Italy which took place a few days ago, causes jitters in the minds of investors about whether we are going to see a repeat of 2008 all over again.

Just like it is very hard to predict if we will see another attack of the magnitude of 9/11 in the near future, it is also very hard to predict whether or not we will see a repeat of 2008 in the financial markets in the near future. However, just like vigilance has been beefed up very significantly after 9/11, you need to be vigilant about your investment portfolio. We believe a few simple steps can go a long way in protecting your investment portfolio.

1) Create an emergency fund of at least 4-6 months of expenses—With very clear signals of a slowdown emanating from the US, Europe and India, you need to be prepared for emergencies like a sudden job loss. For investors with irregular income flows, there may be a need to create up to 12 months of contingency expenses through investments in instruments like bank fixed deposits, liquid funds and short-term bond funds.

2) Ensure that you and your family have enough life, medical and asset coverage—There is a tendency to underinsure, believing that nothing can happen to "me". I'm sure none of the unfortunate victims of 9/11 knew that a plane will crash into their building, in a few seconds changing the lives of their families forever.

3) Use different horses for different courses—A large number of investors tend to have a combination of short-term and long-term goals but a single portfolio strategy, i.e. sell all stocks or buy only gold. We believe that the strategies for investments for long-term and short-term goals need to be different—for e.g., for a tuition fees that is due for your child's education in two years, you are better off using fixed-income instruments like bank deposits and bond funds, whilst for your 5-year-old child for whom you are in the process of creating a corpus that may be required after 10 years, you can invest in more aggressive instruments like equities.

4) Be aware of sleeper cells—Just like anti-terror experts worry about sleeper cells that can be activated at any point for a fresh terror attack, investors need to worry about silent killers like inflation that keep eating away at your portfolio gradually whilst giving an impression that they are actually growing your money. It is therefore critical to have investments in your portfolio that can counter inflation threats effectively, like equities and real estate.

As I walked away from ground zero, I hummed a sweet melody in my mind—*"Na jaane kyon hota hain yeh zindagi ke saath, achanak yeh mann, kisi ke jaane ke baad, kare phir uski yaad, chotti chotti si baat..."*

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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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