INVESTMENT NAVIGATOR

The US downgrade—What should you be doing now?

—Vishal Dhawan

OVER the last fortnight, news about a possible double-dip recession in the US has renewed fears in all our minds about the world economy slipping into recession. More countries keeping getting added to the list of potential problems, with significantly larger economies like Spain and Italy on the radar. This clearly indicates that the global economy is being faced with challenges of slow growth.

A significant component of world growth expectations were driven by a recovery by the US. With the S&P downgrading the US rating, this fear of a slowdown has got exaggerated and stock markets across the globe have been seeing significant movements, both up and down. Headlines like *Manic Monday, Terrible Tuesdays, Wonder Wednesday* only add to the noise and panic. We believe investors need to be careful about ensuring that they do not lose focus with respect to planning their personal finances.

So the moot question is "what should I do in this noisy environment?"

Accept that this uncertainty is the new normal—With the US and Europe having spent beyond their means for many years now, don't be surprised by downgrades that continue to take place as we go forward. Whilst the crisis in 2008 was unprecedented, we need to be ready for crises of this kind on a reasonably frequent basis as countries across the globe face challenges at different points.

Fixed income is not the solution—There is a tendency to restrict all investments to fixed income in an uncertain environment. Whilst we believe that an uncertain environment is now the new normal, you will still need to have enough wealth to provide for all your financial goals, be it retirement or education for your children. This may or may not be possible with a 100 per cent fixed income portfolio and depends on your current wealth and savings potential.

It is critical that you look at these goals after adjusting for inflation, as we can expect the entire world to see much higher inflation over the next few years. You may find inflation beating growth assets like real estate and equities in the current environment.

Stick to your asset allocation strategy—During times of extreme volatility, there is a tendency to want to change your mix of assets dramatically to align with the short-term view of the asset. For example, investors have been rushing to buy gold over the last couple of weeks due to heightened uncertainty. Whilst a small tactical change can be considered, moving entire monies from one asset like equities to gold is not a recommended strategy as when the tide turns you may find that you have missed out on investment opportunities.

4. Remember why you are investing—Investments should be made with a clear end-goal in mind. You need to look at the end-use of the money clearly whilst investing itself. Investments for goals which are 5-7 years to realisation can use equity and real estate offerings in them, whilst shorter term goals should be fixed income driven.

5. Invest looking forward, not backward—There is a tendency to look at the past returns to decide whether or not to invest in the future. Good returns in the recent past tend to make investors want to invest more into that asset class whilst investments with lower returns in the recent past are shunned. The best returns in most investments come when the view on the investment is not positive. Investors who bought gold at the turn of the century have had close to 18 per cent returns per annum even though they made no money in gold for 20 years before that.

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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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