



ILLUSTRATION: SUDHIR SHETTY

# Don't change your investment strategy due to elections



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From economists to businesses to the common man, the election results are a very keenly watched and much-discussed event, with various decisions being put on hold to be decided after the outcome. There are multiple opinions on what will be the impact of the outcome on financial markets and investment portfolios. Irrespective of which party comes to power, the good news is the impact of the results matters less than what it is believed to be. In fact, markets move to the next big thing very quickly.

It is important to keep in mind that there is no perfect way to predict the outcome of elections. Thus, speculating on a certain outcome and trying to build

a strategy around that view can be damaging for investors, especially when they are saving towards long-term goals. You need to remember that over the years, policies across governments have been fairly consistent, with promises made at the time of election getting tampered once elections are over, to become more pragmatic and prudent. The election rhetoric should not be confused with what government policy will be, and should therefore, not form the foundation of an investment portfolio.

Election outcomes could also impact different asset classes differently, and to much smaller extent than estimated. For example, the impact on your fixed income portfolio is driven by how interest rates move globally and domestically, inflation rates and oil price movements driven by global geo-political events, all of which are only partly impacted by the election outcomes. Real estate prices are driven by demand and supply, along with affordability and interest rates on home loans, which could once again only be marginally impacted by election outcomes. Equity markets are driven by corporate earnings, commodity prices and global fund flows. In addition, election result day volatility is not a harbinger of stock market performance over the tenor of the elected government. Any prudent investment portfolio will need to have a strategic asset allocation with the appropriate investment time horizon. Trying to shift this asset allocation significantly because of an election event is not suggested for investors. You could earmark a small portion of your money if you like to take a tactical position in equity, if you believe markets could either fall or move up after the election results. However, as mentioned earlier, you need to do this with a very small portion of your wealth.

There is no debate in our minds on the impact of elections on investment portfolios.

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## WINNING STRATEGY FOR YOU

In case you are likely to get carried away with all the news around elections and the possible winners, here is our winning strategy for your portfolio, irrespective of the party which wins:

- Revisit your financial goals to correctly estimate the time horizon that you have for your investments.
- Build an appropriate asset allocation strategy to align with the time horizon of your financial goals. In case you are overweight or underweight a particular asset class, use this opportunity to rebalance your portfolio.
- One of the best ways to cover for election-related risks is to have a global portfolio, that is, a portion of your money invested internationally to protect from rupee volatility and equity market volatility due to elections.
- Don't get carried away by results as the movements could be short term and markets

THE MOVEMENTS COULD BE SHORT TERM AND INVESTORS  
focusing on fundamentals very quickly.

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