

How NRIs can manoeuvre the geo-political risks to their portfolios

Here are six steps that can reduce the impact of such geo-political events

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One of the big trends that has been playing out globally is the move towards de-globalization and nationalism, and these are likely to continue in the future as well. Whilst these trends get more attention in certain geographies and less in others, there could be a significant impact on investor portfolio strategies, especially those held by NRIs. It could potentially impact both professional income flows as well as existing and/or planned investments. Geo-political uncertainty could also get heightened at certain times, as the world gets more polarized. We saw this briefly play out a few weeks ago, on the back of the US-Iran conflict, which created significant uncertainty, but seems to have settled for now. Thus, investors may wish to keep geo-political risks in mind as they decide on their money matters. We believe the following steps will need to be considered when investors start/review their financial plans in the future.

Plan for income uncertainties, whilst making choices

Whilst professional income has always tended to be uncertain, especially as one becomes more senior in an organization, and also starts to age, the rise in nationalism and geo-political risks could create more uncertainty as governments could work towards greater job reservation for local or preferred nationalities. In addition, geo-political risks could mean that families decide to move geographies at certain points, due to concerns with their safety. It is therefore important to factor in this uncertainty whilst making choices, and not believe that income will continue to grow.

Deleverage — reduce your loans

With interest rates at very low levels, and risk assets such as equities globally having done very well, it is very tempting to use leverage for enhancing portfolio returns. In addition, it is very tempting to let loans remain, due to low interest rates, and not hurry to pay them down. We believe this is a very risky strategy as unexpected events could cause abnormal outcomes, which are very difficult to deal with if there is leverage involved. Paying down loans may therefore be a good idea for NRIs who live in geographies where some of these risks are manifesting themselves.

Avoid buying physical assets

Other than owing a primary residence, which has multiple benefits including a rental saving, making investments in real estate should be thought through very carefully, as geo political risks and de-globalisation could result in lack of flexibility due the illiquid nature of real estate, which is so critical in this uncertainty.

Stick to your asset allocation

As an investor, when some of the risks come to the fore, there is a tendency to panic or a desire to move to safe havens such as cash or fixed deposits. We need to remember that a lot of these events tend to be temporary in nature, and thus should not warrant a knee-jerk reaction. Stay focused on your strategic financial goals, and allow your investment strategy to play out, especially if your targets are long-term in nature, i.e., seven to 10 years away.

Diversify geographically

By having investments in multiple geographies, some of the risks of event impacts on a particular geography can be avoided. For example, as India continues to be a large importer of oil, both from the Middle East and the US, any uncertainty on its supply, or increase in crude prices, has a material impact on investor portfolios in India, due to its potential effect on the economy in terms of inflation, and current account deficit. A geographically diversified portfolio may not get impacted in the same manner if oil prices were to move up.

Have gold in your portfolio

One of the best hedges against uncertainty has been gold, as it has a negative correlation with other asset classes such as equity. Consider the use of gold ETFs or low-cost gold alternatives to deal with geo-political risks.

Apart from geo-political risks, there are also other risks that can manifest themselves from time-to-time, including epidemics such as the Coronavirus that has affected many in China and a few other countries. Governments world over are trying to contain its spread. Historical data seems to indicate that the longer term impact on financial markets due to such events tends to be limited, though they are disruptive in the short term.

Thus, having a strategy to deal with uncertainty created by geo-political risks and unforeseen events is critical. Avoid reacting immediately though, and do so only after you have thought it out well or consulted a professional advisor.

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