How to protect gains from equity market amid the ongoing bull run

Experts advise on whether it is good to stay invested or to book some profits even as the market rally continues

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If you are an equity investor who has stayed put through the ongoing equity market rally, it is possible that you might be sitting on handsome gains. Despite the fear of mounting inflation, tapering by the US Federal Reserve, foreign institutional investors pulling out, and a possible third wave, there is no stopping equity market bulls. However, as an investor, you must be wondering whether you should stay invested or book some gains to preserve your profits from equity investments. We ask experts what investment strategies they are advising their clients to help them protect their gains from equity markets.

(From Left) Nishant Agarwal, Vishal Dhawan, Arvind Rao and Anu Jain.

Nishant Agarwal, managing partner and head - family office, ASK Wealth Advisors: If your desired equity exposure has gone up in this rally, bring it back to your long-term asset allocation as per your goals. Redeem from underperforming funds or stocks that do not fit in your portfolio any longer owing to changes in quality, growth prospects, etc. Stocks bought with limited research, irrespective of their current levels and your gains or losses, should be the first to exit. If you have added tactical or opportunistic equity exposure in March or April 2020 at lower levels, you can book some profits. You should not reduce equity allocation at one shot. Like averaging is recommended at the time of entry, exit can be staggered over 3-6 months. Sophisticated investors can also consider hedging through derivatives instruments by buying put options. You should not make wild swings in your long-term asset allocation between equity and cash based on the *"feel"* of the market and the urge to time entry or exit. Keep the variance band between 10% and 20% of your long-term equity allocation.

Avoid very high cash or profit booking calls or complete exit from equities. Resist the temptation to sell positions that are doing well and critically evaluate underperformers and exit even at loss if those were bad decisions in hindsight.

Vishal Dhawan, certified financial planner, founder and chief executive officer, Plan Ahead Wealth Advisors, a Sebi-registered investment advisory firm: The recent rally in equity markets by itself should not become a trigger for you to exit the markets to lock in gains. You should instead focus on strategic asset allocation. If your portfolios have become overweight on equities, vis-à-vis their strategic asset allocation, you should rebalance them by selling a portion of equities and moving to bonds or gold. If segments within portfolios have become overweight against their targeted allocation, they should be sold to rebalance portfolios. Investors should also use this opportunity to align their mix between domestic and international equities as the sharp rally in their India equity portfolios may have tilted their portfolios geographically towards India vis-à-vis developed or other emerging markets and they may want to rebalance. Do exit poor quality and fundamentally weak equities though.

Arvind Rao, chartered accountant, certified financial planner; and founder, Arvind Rao & Associates, a financial advisory firm: The bull market seems to be unstoppable for now but equity investors are not complaining. If any of your goals is coming up for maturity over the next 2-3 years, chances are bright that the equity investments allocated to these have surpassed their projections. In these cases, you can book gains and move them to debt, so that the goal is not compromised, though the investor's gains till date stand protected.

> **Avoid very high profit booking calls or complete exit from equities. Resist temptation to sell positions doing well**

If you have equities for longer-term goals (five years and beyond), you should take a re-look at asset allocations. In case allocation to equity is higher than expected, you should rebalance, i.e., book gains and reallocate to other assets. If even at these elevated market levels, chosen asset allocations still show more appetite for equities, you should slow down and stagger these investments over a slightly longer time frame (anywhere between 8 and 12 months) as it is prudent to stay watchful at these levels. It's very difficult to stay away from equities right now, but being alert and informed will only help.

Anu Jain, head of broking, IIFL Wealth: We believe portfolio decisions should not be made in silos. Rather, investors must adopt a holistic approach that optimally captures the relative performance of all asset classes in the portfolio and the overall portfolio risk based on current exposure. Thus, portfolio exposure and allocations should ideally be dictated by your asset allocation strategy.

If your current equity exposure is significantly higher than the planned asset allocation to equities, it is time to bring the exposure down to acceptable levels. At the same time, if the exposure has not exceeded your planned allocation, it might not warrant a shift at the current moment.

The second factor to consider is the current valuations and future earnings growth. If valuations are at a par with the historical average and there is potential for return on equity expansion, then it would be wise to maintain a higher equity exposure.

Our advice is to hold on to long-term quality shares and reduce any short-term trading strategies. Among sectors, we remain overweight on tech on account of the continued performance.

While banking has underperformed so far, we continue to hold on to this sector. We maintain our large-cap to mid-cap ratio of 80:20 with mid-caps from IT sector constituting around 15% of this portfolio.