Should you move investments to fixed income products?

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The financial market is unpredictable is so many ways. The return on your investments have no guarantee. Hence, one must realise the gravity of risk before putting their hard earned money into either an investment or saving instrument. This has become rather important after the sudden spike in investments since the pandemic.

People have come to think of life as extremely uncertain and securing enough money for an emergency seems the only way out. However, the finance market isn't a place to enter without proper strategising and goal planning. You'll simply be lost in the world of hearsay and herd mentality.

Every investor must be keenly aware of their financial goals and accordingly one must plan to periodically rebalance the portfolio for maximum yields. Many people consider fixed income products as a risk management tool and like to use them for rebalancing their portfolio as and when required.

Portfolio rebalancing

"Rebalancing portfolios is critical to avoid the greed and fear cycle impacts of volatile assets like equity. If you are more than 5% overweight vis a vis your strategic asset allocation to equity, consider

rebalancing by moving the money to fixed income. Keep exit load and short term capital gains in mind whilst doing the rebalancing," said dh Dhawan, founder at Plan Ahead Wealth Advisors.

Currently, fixed deposits, debt mutual funds and bonds are the leading fixed income investment avenues. But rebalancing an investment portfolio must be preceded by a sound portfolio allocation in the intial phase as well.

Importance of pre-determined portfolio

"Firstly, there has to be a pre-determined portfolio allocation between Equity, Fixed Income, Gold, RE and other asset classes. This ratio generally should not change unless there is a change in objective. However, at times there can be temporary shift from one asset class to another as the situation demands and this has to be temporary in nature – which can be used as risk management tool too," said market veteran Ambareesh Baliga.

He cited the example of sudden crack in the markets in March 2020 which caught most people off-guard. Those who were fully invested equities could not invest further but had the confidence and courage to buy and could have shifted partially from debt to equity.

"Again, this shift would be comparatively small – say a 5% or 10% shift and they would have to book out and shift back to debt when the equity markets recovered. Similarly, now is the time to reduce exposure to equities to shift to debt instruments to preserve capital. However, on a sharp correction the same would be shifted back to equities to maintain the pre-decided ratio," Baliga said.

Which is the right time for portfolio rebalance?

Is there a right time to make this investment shift to fixed income products? Well, not really. You can't time the market that well. It's only in hindsight we realise 'that' was the right time.

However, when there is a certain level of discomfort or concern on the valuation of the specific asset class, it's time to book out or shift partially at least. Like the current levels of equity market could be an opportune time to shift out partially from equities but only time will tell whether it was a right decision or not.

Capital safety is the key

Besides, what must be introspected is the reason to opt for fixed income assets. While a shift to fixed-income assets like bonds can offer better returns than capital markets, one must priotise capital safety over returns when they decide to rebalance the portfolio.

"When we shift from Equities to Fixed Income it's not for the yield but for the safety of capital. Yield is secondary," Baliga pointed.

However, there are risks linked to all kinds of investments . Fixed income investing can definitely tone it down. Hence, a refined asset allocation and timely rebalancing can help you sustain the often windy days of the financial world.