Wealth Creation Tools
Asset Allocation

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At

Wealth Creation for Investors Conference May 2002

Why Asset Allocation

- Investing with perspective
- To make investments more efficient
- To device investment solutions for specific needs or goals
- For small investors it is must since the room for error is not there
- 93.6% returns explained by asset allocation

What Is Asset Allocation

- ? Consider different asset classes
- ? Blending of assets increase risk adjusted return
- ? Exercise to find optimum portfolio for given risk parameters

How to Allocate Assets

- ? Establish your future goals
- ? Compare with current income stream
- ? Establish your risk tolerance level
- ? Identify available assets and establish their returns, risk (std. Dev) and relationship (covariance)

Asset Allocation Live Example

- We considers five asset classes namely
  - Large Cap Equity
  - Mid Cap Equity
  - Fixed Income
  - Cash
  - Gold
- We have used hypothetical data for Returns, Risk and Co relation
- We are using Visual MVO (Mean Variance Optimisation) Software

Asset Allocation in Real Life

- Debt and equity are not the only asset classes
- Also consider your job/business into asset allocation
- How to select vehicles to represent various assets

Why for Small Investors

- No room for error
- Liabilities are well defined
- One has to fend for oneself during retirement
  - Our grand parents survived on our parents earnings
  - Our parents survived on defined contribution pensions
  - We will have to survive on our savings only
- Increased longevity means longer retired period

Asset Allocation – It Is Dynamic

- All parameters of asset classes changes
- Instruments available to take exposure changes
- Your risk tolerance also changes with time age and income level
- Investing is game of probability and hence after reviewing past results future should be considered afresh

Simulation Results

- Actual simulation Ranadev Goswami (fellow of IIM Bangalore)
- Final portfolio value required around Rs. 15 Lakhs
- Annual contributions at 12.79% of yearly income (Rs. 1 Lakh at starting)for 35 years
- Final yearly earnings @ Rs. 2 Lakhs per annum

Simulation Results

Investment Strategy	Terminal Portfolio Value	Return Below Target %	Annual Real Annuity Payoff
100% in IITS	14.87	0	1.00
All Equity	41.45	16.8	2.79
60-40 Equity Debt	27.14	14.6	1.82
Age Adjusted	25.59	12.9	1.72

Asset Allocation Broader Perspective

- ? Tactical asset allocation
- ? Age adjusted asset allocation
- ? Fund manger asset allocation (tracking benchmark)
- ? Keep eye on inflation adjusted returns
- ? Alternate investment