INVESTMENT PLANNING

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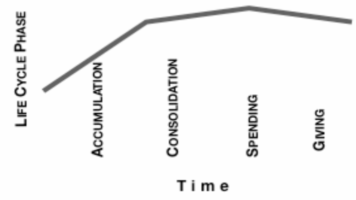
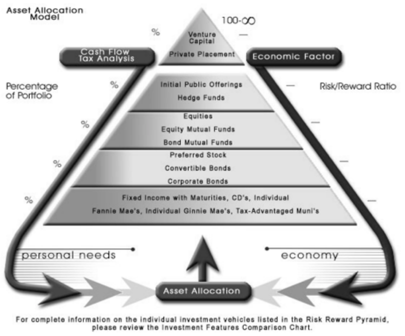
Investor Life Cycle





Asset Allocation at Various Life Stages

Life Stage	Investment Mantra	Investment Horizon	Asset Allocation			Risk
			Equity Funds	Debt Funds	Cash	
21-30 years: Young Investor	➢ Aggressive investments ➢ Low Surplus	> 15 Years	85%	10%	5%	H
			75%	20%	5%	M
			65%	30%	5%	C
31-40 years: Moderately Young Investor	➢ Aggressive investments ➢ Increasing Surplus	> 10 Years	75%	20%	5%	H
			65%	30%	5%	M
			55%	40%	5%	C
41-50 years: Matured Investors	➢ Moderate risk in investments ➢ Peak of income leading to increase in surplus	> 10 Years	65%	30%	5%	H
			55%	40%	5%	M
			45%	50%	5%	C
51-60 years: Seasoned Investors	➢ Safe Investment Options ➢ Looking to generate income	> 10 Years	55%	35%	10%	H
			45%	45%	10%	M
			35%	55%	10%	C
60 onwards: Retired Investors	➢ Safe investment options ➢ Withdrawal of investments to generate steady income	> 5 Years	40%	45%	15%	H
			30%	50%	20%	M
			20%	55%	25%	C

Source: Advisorkhoj Asset Allocation calculator
H: High Risk Taker M: Moderate Risk Taker C: Conservative Risk taker

ASSET ALLOCATION PROCES (LIFE CYCLE MODEL)

- Set your financial planning objectives
- Set your strategic allocation
- Add assets to build up your portfolio
- Monitor your asset allocation regularly –capital appreciation, risk tolerance due to age
- Rebalance your portfolio
- Consider Lifestyling (Rebalancing) (reduce risk in later years)

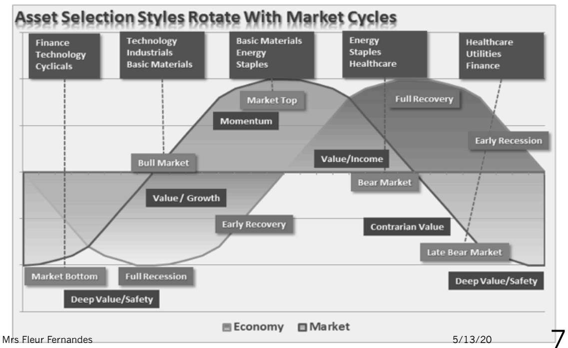
ASSET ALLOCATION STRATEGIES

➢ Traditional Asset based approach
- Adventurous
- Moderate
- Conservative

➢ Asset allocation by age

➢ Asset allocation by time/Rebalancing

➢ Selecting investments by style (income/value or growth), sector, geographical diversification



ACTIVE INVESTMENT STRATEGY

- Takes advantage of inefficiencies in the market
- Timing the market
- Higher than average costs
- Aim to obtain superior risk-adjusted returns
- Followed by most investment professionals and aggressive investors
- Four principal areas:
  - Market timing
  - Sector rotation
  - Security selection
  - Use of specialised investment concept like growth stocks, cyclic stocks
- Advantages – Flexibility, Hedging, Risk management, Tax management

PASSIVE INVESTMENT STRATEGY

- Based on the beliefs that:
- Markets are efficient
- Market returns cannot be surpassed regularly over time
- Low-cost investments held for the long-term will provide the best returns
- Operation:
- Create well-diversified portfolio at a predetermined level of risk
- Relatively unchanged portfolio, unless it becomes inadequately diversified or inconsistent with investor's risk-return preference
- Advantages – very low fees, good transparency, tax efficiency

	Active	Pasive
Fund manager dependence	High	Zero
Trading cost	Very High	Very Low
Emotion & bias	High	Low
Performance relative to benchmark	Majority underperform	Same as benchmark
Fees & cost	High cost	Low cost
Risk	Unknown Manager may up or down risk	Only Market risk of benchmark

ASSET ALLOCATION STRATEGIES

1. Strategic Asset Allocation

"base policy mix" - a proportional combination of assets

Buy-and-hold strategy, even as the shift in values of assets causes a drift from the initially established policy mix
Target asset allocations

Mix of equity and debt

Leans towards passive investment

2. Constant-weighting Asset Allocation

Regular rebalancing

ASSET ALLOCATION STRATEGIES

3. Tactical Asset Allocation

Range of asset allocations

Buy sectors or stocks that show most potential for growth

May be a contrarian investor

Leans towards active investment

May lose out retirement funds, suitable to only small percentage of assets

4. Core-Satellite Asset Allocation

Hybrid of strategic and tactical

Core holding – bulk/strategic component-50-80% of whole portfolio

Satellite allocation – tactical approach

Obtain market returns, also potential to enhance gains

Strategic	Tactical
Asset allocation decision arrived at after factoring market changes & one's financial objectives	Markets & financial objectives change dramatically over investors' horizon period
Markets & asset classes adjust over a period of time, hence no need of adjustments	A dynamic & adjusting investment decision works in favour of the client
Regular risk profiling & asset allocation review not required unless asset allocation breaches pre-set allocations	Regular review of revising percentage asset allocation helps making better portfolio decisions
An established and fool-proof way of asset allocation	It can enable exploitation of better market & product opportunities.
Performance as per desired returns	Performance could be bettered by better performance of the revised allocations

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ASSET ALLOCATION STRATEGIES

5. Insured Asset Allocation

Establish a base portfolio value under which the portfolio value should not drop

Suitable for low-risk investors or those nearing retirement

6. Dynamic Asset Allocation

Sell assets that are declining and purchase assets that are increasing

It is opposite of a constant-weighting strategy

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ASSET ALLOCATION STRATEGIES

7. Life-cycle Based Asset Allocation

Allocation and risk tolerance changes as person moves from one lifecycle stage to other

8. Integrated Asset Allocation

includes aspects of all strategies

Can use either dynamic or constant-weighting strategy

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GOAL BASED FINANCIAL PLANNING

It is the process of helping clients prioritise their financial goals and determine the optimal plan to fund them.

It eliminates the retirement-only focus.

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GOAL BASED FINANCIAL PLANNING - ADVANTAGES

- Avoid undersaving
- Plan ahead, save less, achieve more
- Use a data-driven target (eg. Downpayment)
- Save for a tangible outcome
- Guilt-free spending
- Benefits to an automated plan
- Turn a bias into a strength (partitioning)
- Better match assets and liabilities, avoid debt
- Achieve optimal returns

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