



MY FINANCIAL ADVISOR™

ASSET ALLOCATION & INVESTMENT PLANNING

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Asset Allocation

- Investor's dilemma... What is Asset Allocation?
- Asset allocation - Why does it matter?
- Asset allocation - How does it work?
- Asset allocation – Common Practice?
- Asset allocation – Mistakes?
- Why use a Financial Planner?



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What is Asset Allocation?

- It is a Process of diversifying investments into different asset classes and sub-classes **to reduce the investment risk.**

- Example: 40% Stocks and Stock equivalents , 30% in Real Estate, 20% Bonds / Debt Mutual Funds, 10% in Cash.

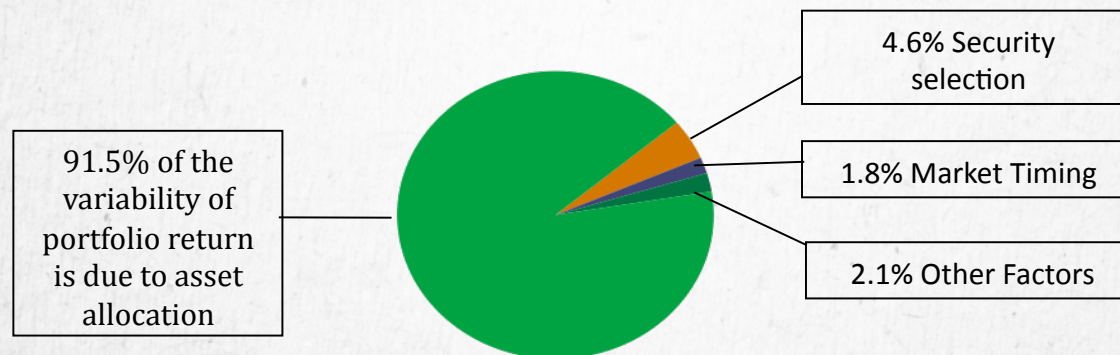
- Lowers investment risk as different asset classes perform differently in different market conditions.
 - Loss in one investment may be offset by gains in another.



Why Asset Allocation?

- To diversify your investments.
- To align your portfolio with your investment goals.
- To maximize return potential for a given level of risk.

The Potential Impact of Asset Allocation



Source:

“Determinants of Portfolio Performance II, An Update” by Gary Brinston, Brian D. Singer and Gilbert L. Beebower, Financial Analysts Journal May-June 1991



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Asset Classes

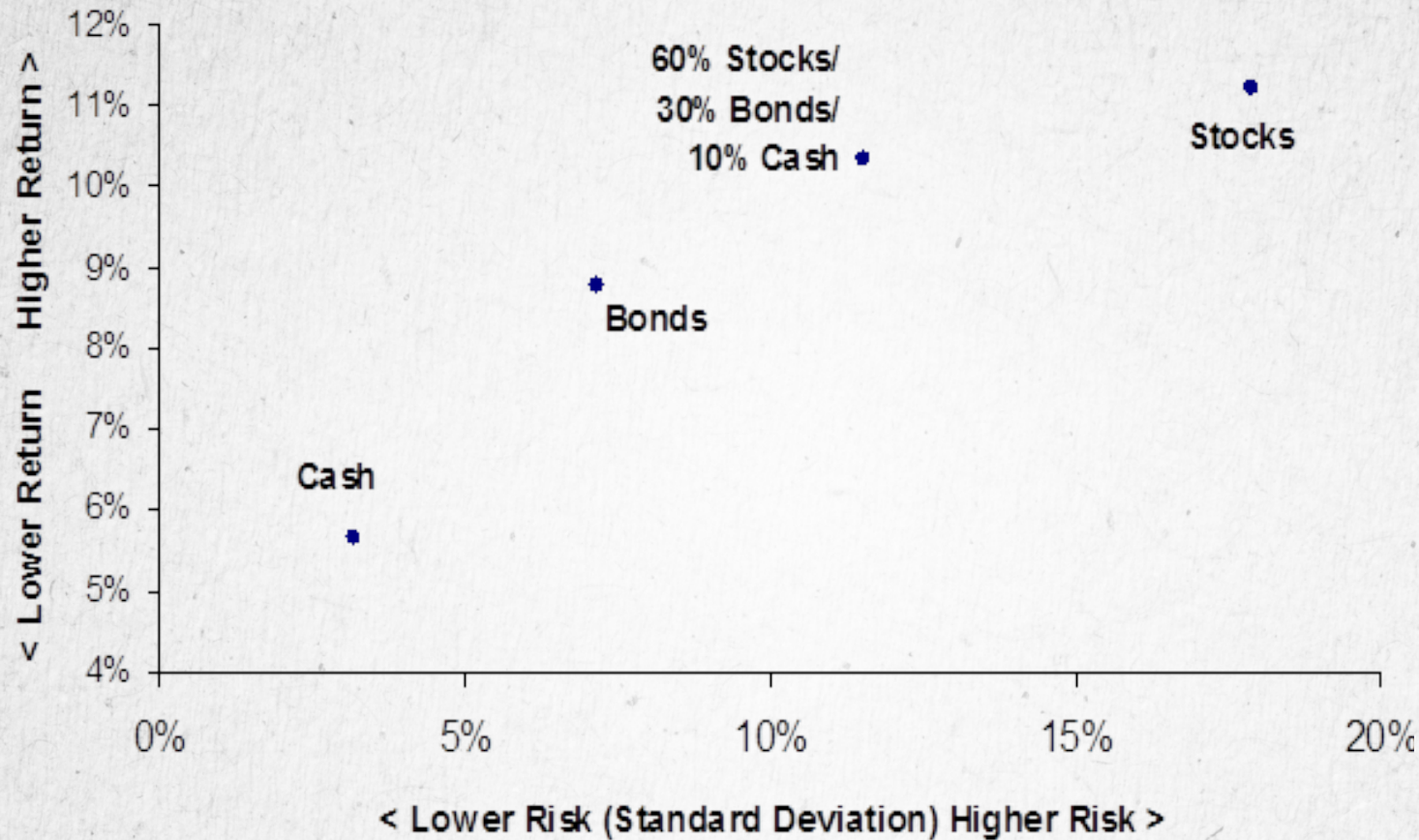
There are many types of assets that may be included in an asset allocation strategy:

- Cash and cash equivalents (e.g., Time Deposits, Money Market Funds etc)
- Fixed interest securities such as Bonds: investment-grade or junk (high-yield); government or corporate; short-term, intermediate, long-term; domestic, foreign, emerging markets or Convertible Security
- Stocks: value, dividend, growth, sector specific or preferred (or a "blend" of any two or more of the preceding); large-cap versus mid-cap, small-cap or micro-cap; Public Equities AND/OR Private Equities, domestic, foreign (developed), emerging or frontier markets
- Commercial or residential Real Estate (also REITs)
- Natural resources: Agriculture, Forestry and Livestock and other Commodities
- Precious metals
- Collectibles such as art, coins, or stamps
- Insurance Products (Annuity, Life Insurance etc.)
- Derivatives such as long-short, market neutral or event driven strategies, Options, collateralized debt / Futures
- Foreign Currency
- Venture Capital or Distressed Securities



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Trade Off Between Risk & Return



Sources: Standard & Poor's; the Federal Reserve. Stocks represented by the S&P 500 index. Bonds represented by the Barclays Aggregate Bond Index. Cash equivalents represented by the Barclays 3-Month Treasury Bills Index. Past performance cannot guarantee future results.

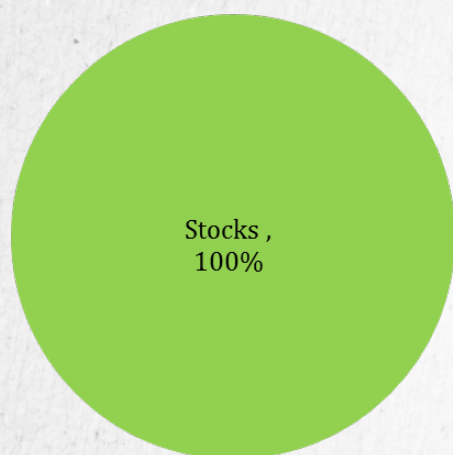


Example of an Asset Allocation

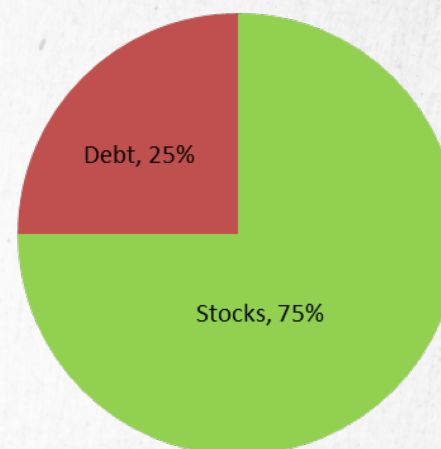
Asset Class		Annualized Return	Risk (measured in terms of SD)
Equities	Growth	10.5%	16.6%
	Value	10.2%	15.8%
	Large Cap	10.5%	15.6%
	Small Cap	10.9%	18.9%
	International	10.2%	17.9%
Bonds	T-Bills/ G-Sec	9.6%	5.7%
	Corporate Papers	8.5%	9.8%
	Other Debt Products	8.0%	10.5%
Cash		6%	0.7%

Case Study 1 – Young Investor Asset Allocation

Sample Goals: Retirement / Long Term Savings



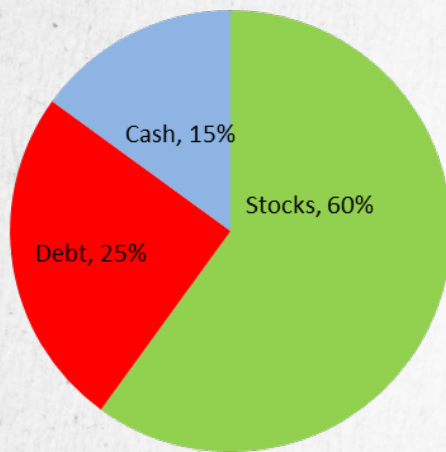
Average Annual Return: (25 years)	10.5%
Risk Level:	15.6%



Average Annual Return: (25 years)	8.2%
Risk Level:	11.2%

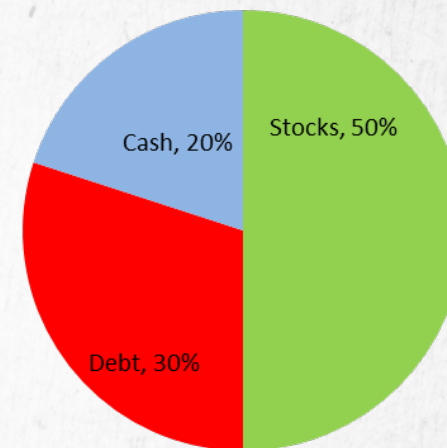
Case Study 2 – Mid Life Investor Asset Allocation

Sample Goals: Short Term - College Savings ; Long Term - Retirement / Long Term Savings



Less Conservative

Average Annual Return: (25 years)	9.3%
Risk Level:	9.7%

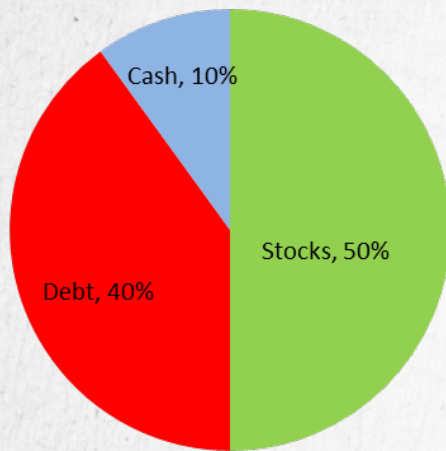


More Conservative

Average Annual Return: (25 years)	8.9%
Risk Level:	8.2%

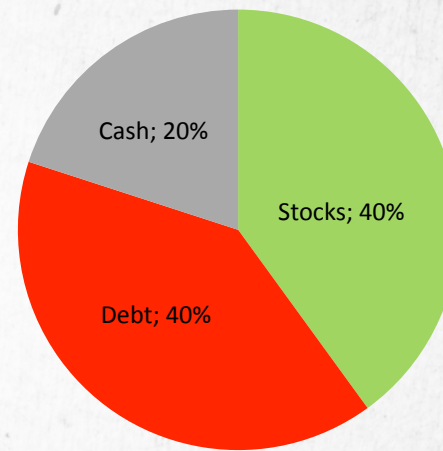
Case Study 3 – Nearing Retirement Investor Asset Allocation

Sample Goals: Retirement Income; Keeping Ahead of Inflation



Less Conservative

Average Annual Return: (25 years)	9.3%
Risk Level:	9.7%



More Conservative

Average Annual Return: (25 years)	8.9%
Risk Level:	8.2%



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How does it work?

- Any asset allocation strategy strives to achieve a trade off between Risk & Return.

- An effective asset allocation strategy is one which takes cognizance of the following factors:
 - Investment Goals
 - Investment Horizon
 - Risk Tolerance
 - Liquidity Requirement
 - Taxes

- Such allocation strategies may either be “Strategic” or “Tactical”



Strategic vs Tactical Allocation

STRATEGIC	TACTICAL
Stocks	<ul style="list-style-type: none">• Growth / Value• Large Cap / Mid Cap / Small Cap• Domestic / International• Sector Specific
Bonds	<ul style="list-style-type: none">• Issuer• Maturity• Quality• Yield



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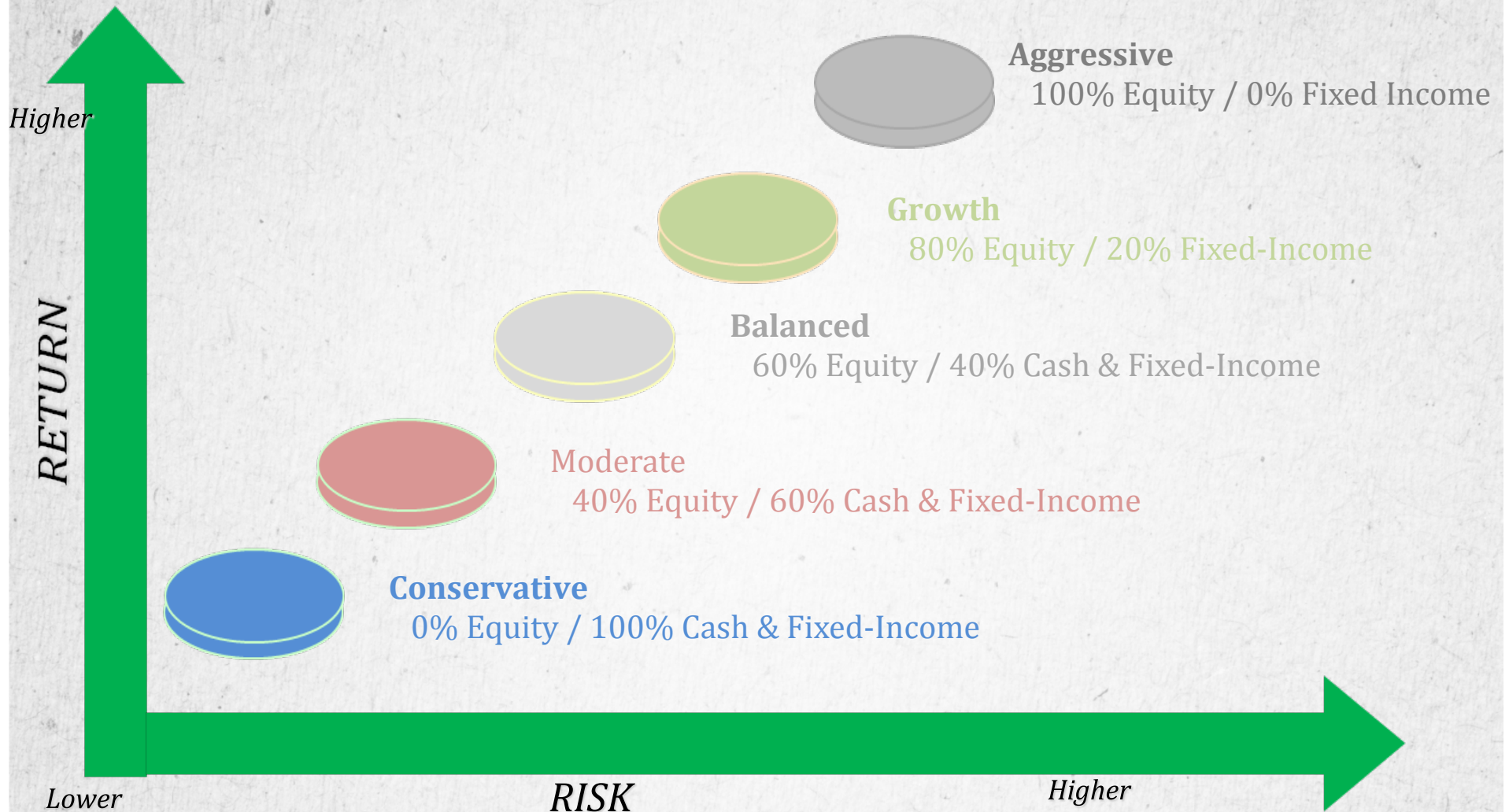
Common Practice

- Never allocate money required for short term goals (1-2 years) to equity.
- $100 - \text{your age} = \% \text{ Equity allocation of your portfolio}$ and rest should be in other asset classes.
- Understand your capacity to take risks and your behavior towards risk.



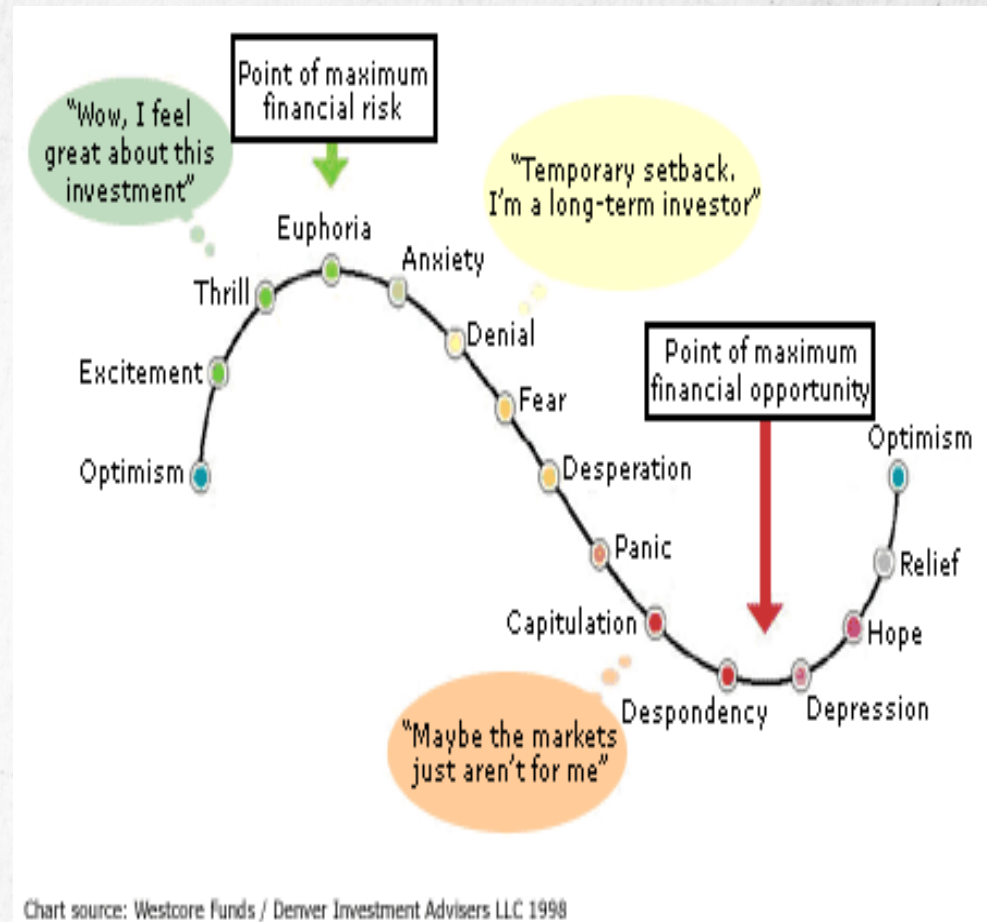
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Broad Portfolio Asset Allocation Mixes



Mistakes in Asset Allocation:

- Investing the wrong money
- Over or under – Diversifying
- Not Accounting for time horizon
- Emotionally driven decisions
- Giving up too soon....





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Financial Planner can help you:

- Set realistic financial and personal goals.
- Assess your financial health by examining your assets, liabilities, income, insurance, taxes, investments and estate plan.
- Develop a realistic, comprehensive plan to meet your financial goals.
- Put your plan into action and monitor its progress.
- Stay on track to meet changing circumstances.



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Why use a Financial Advisor?

A Financial Advisor will create an appropriate Asset Allocation mix for your portfolio after considering the following parameters:

Current Net Worth	Current Income
Financial Goals	Investment Time Horizon
Needs for Liquidity	Safety / Risk Tolerance
Existing Investments	Financial Statements
Estate Preservation	Wealth Transfer
Inflation Protection	Principal Protection
Taxation Aspects	Other Income Sources
Retirement Income Needs	Family Income Needs



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Thank you