



Equities – An Asset Allocation Perspective

Next 15-20 minutes...

- How do Indian investors look at Equities
 - Holistic approach to Equity Allocation
 - Investing sans Emotions
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How do Indian investors look at Equities

Current Investment Pattern

- Underinvested in Equities
 - Equities investments are mostly tactical as opposed to strategic
 - Greater emphasis on products rather than goal orientation
 - Gaps in investor risk profiling
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Holistic approach to Equity Allocation

Equity holdings vary significantly across the globe

- Social, political, and tax environments
- U.S. institutional investors average 45% allocation in equities
- In the United Kingdom, equities make up 72% of assets
- In Germany, equities are 11%
- In Japan, equities are 24% of assets
- India ~5%

Total Asset Perspective to Equity Allocation



Illustration with Example

Current Assets	10 L
Equity Investment	5 L
Debt:Equity Mix	50:50

Total Asset Perspective to Equity Allocation

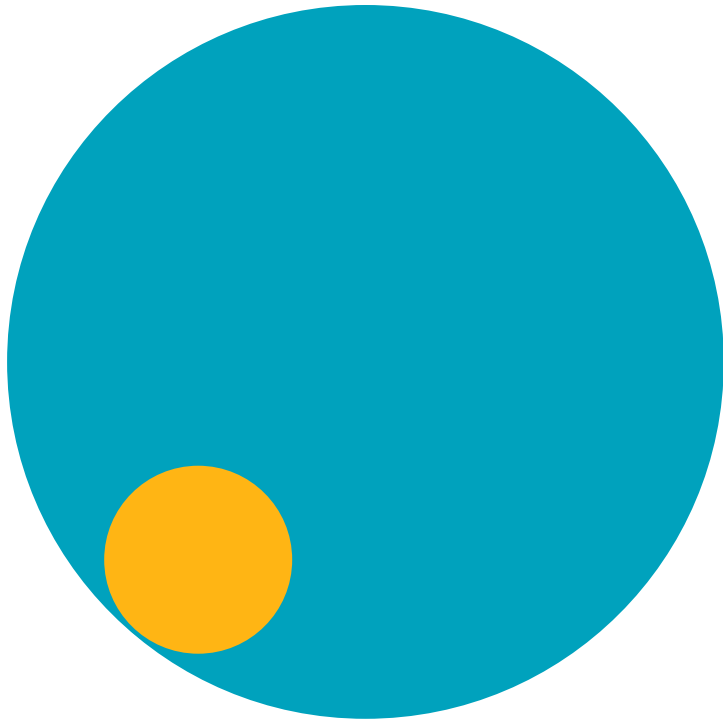


Illustration with Example

Total Assets	100 L
Equity Investment	5 L
Debt:Equity Mix	95:5

Source: Based on “**Human Capital**” concept of Robeco, one of the oldest provider of Pension Solutions in Europe

Investing sans Emotions

Investors dilemma

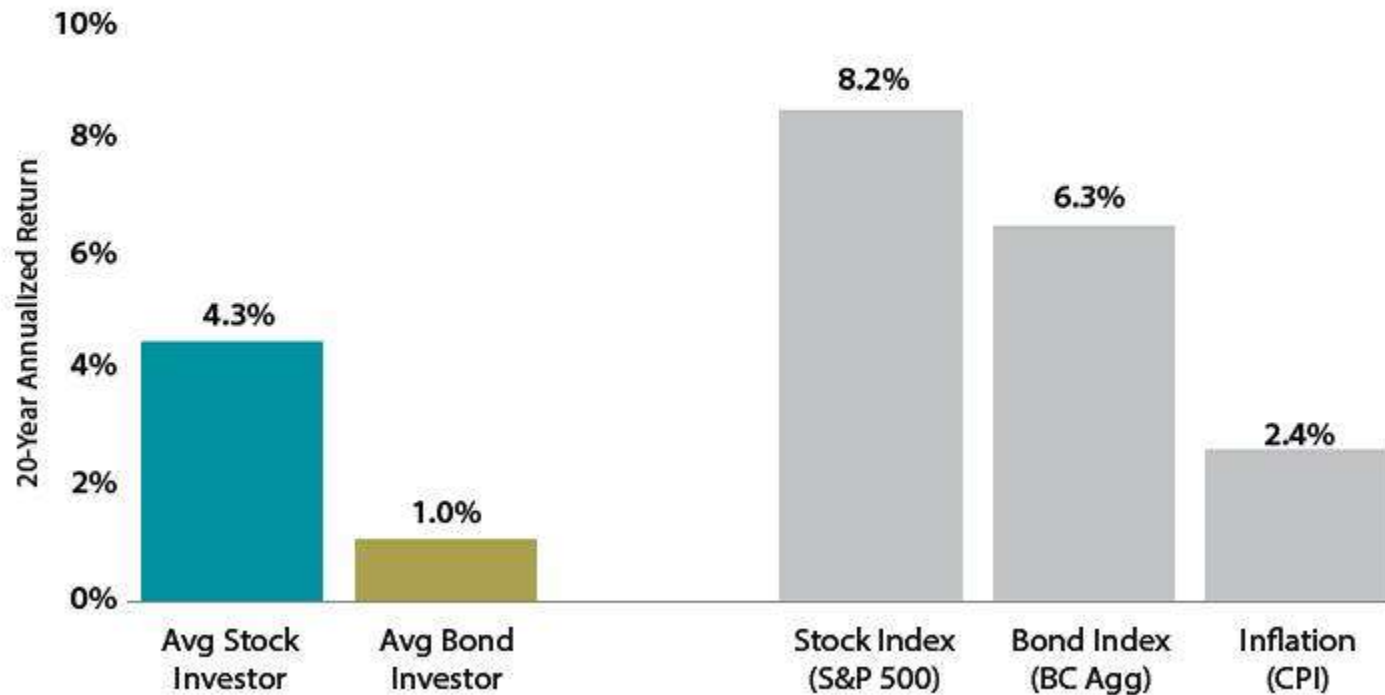
- **Investors tend to follow the trend and chase the most “hot” asset class**

- **Asset classes follow different cycles over different time periods**

- **Two important decisions:**
 - Which is the right asset class ?
 - Is this the right time ?

Returns of Retail Investors – US experience

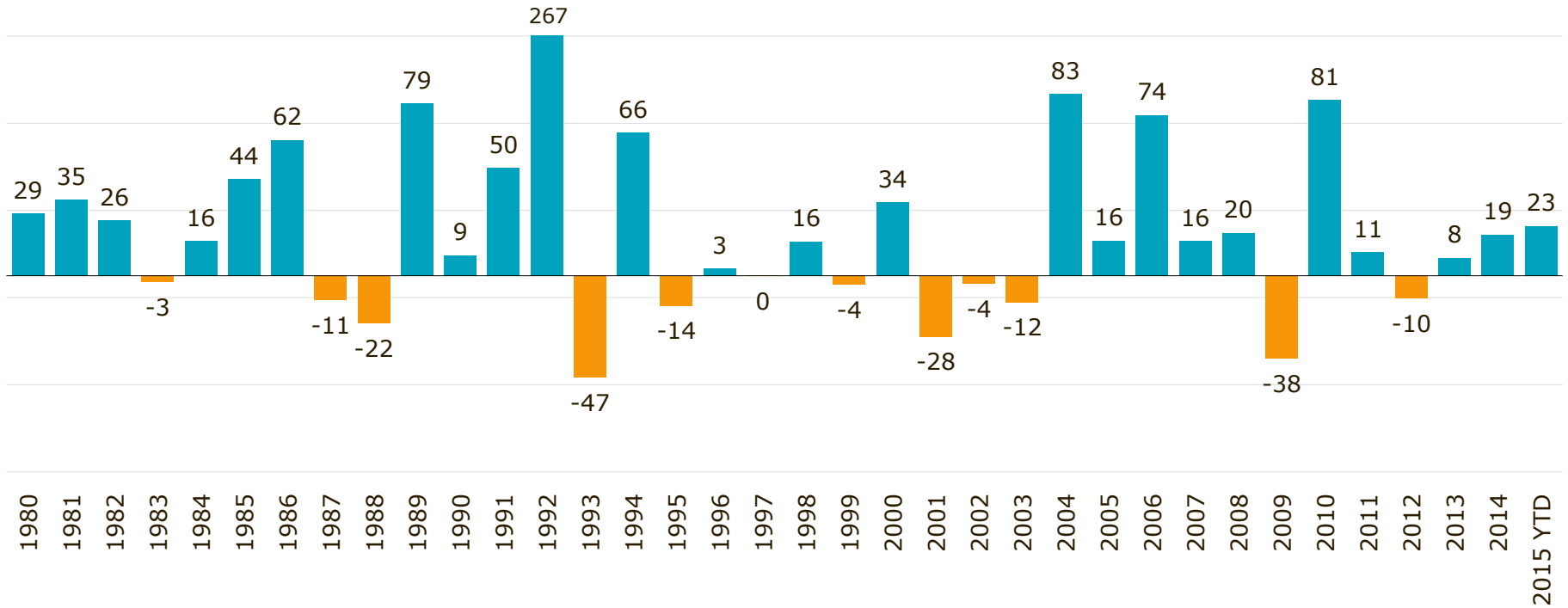
Performance of the Average Investor



Sensex: 35 years history

CAGR since inception: 16.7%

Sensex Annual Return



It is Equity and Debt and not Equity or Debt

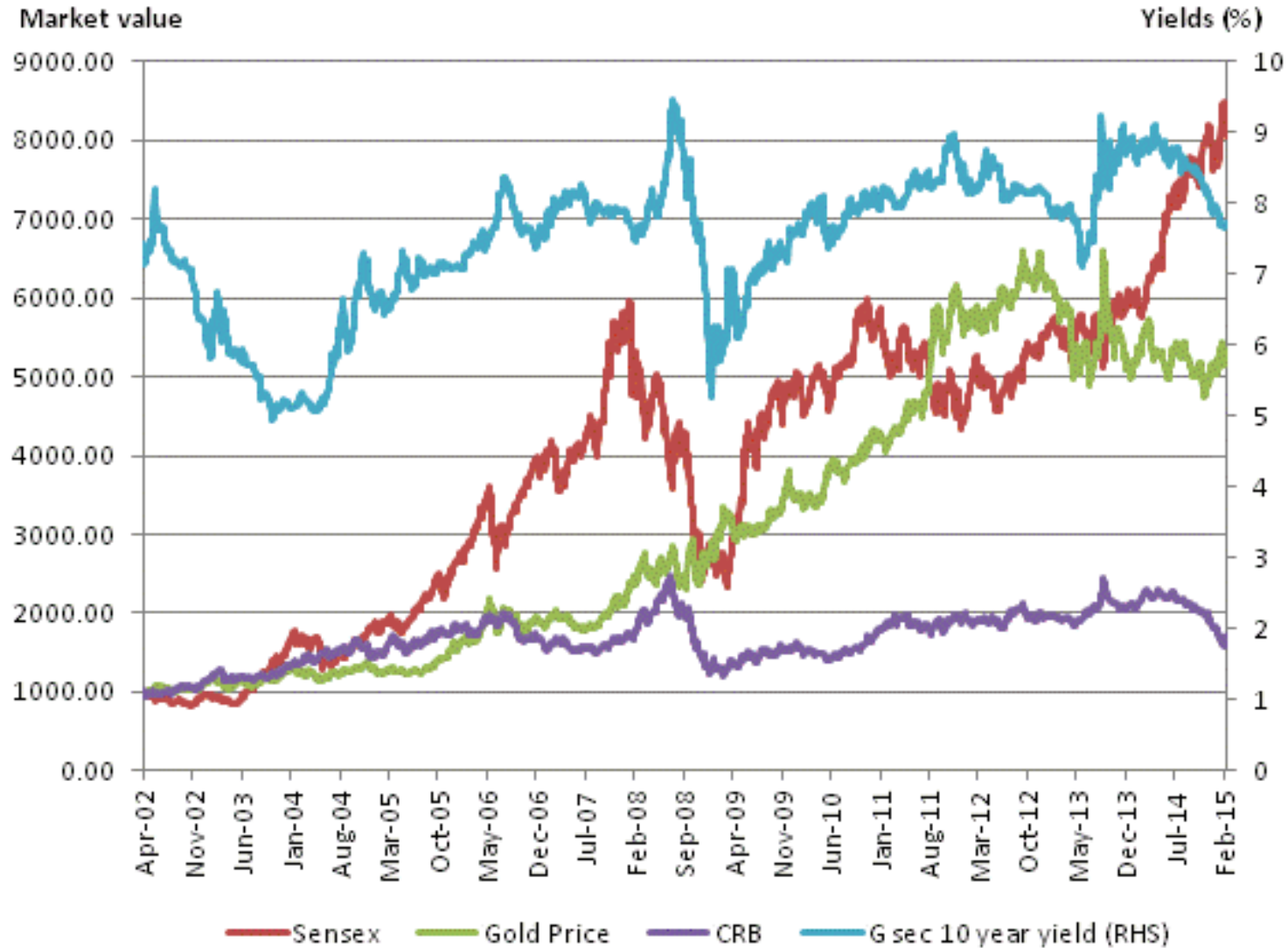
- **Equities offer best returns over the long term**
 - But comes with a high degree of volatility
- **Debt gives steady returns**
 - But barely beats inflation

Solutions.....Asset Allocation

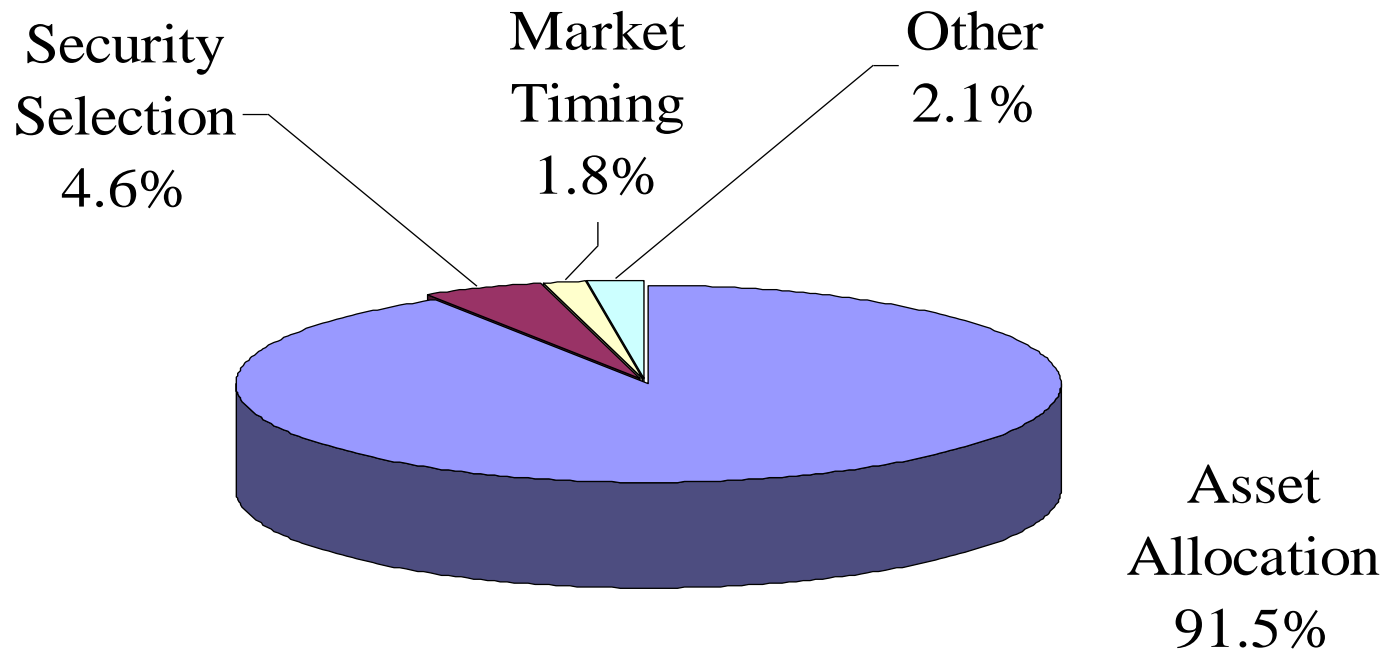
Importance of Asset Allocation

- Asset classes can be volatile
 - Asset allocation helps in reducing volatility and generate superior risk adjusted returns
 - Helps investors keep a long-term perspective and avoid knee-jerk reactions (removing emotion out of investments)
 - Average Stock and Bond investors have underperformed in their quest of chasing superior returns from time to time
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Life-cycle of various asset classes



Determinants of Portfolio Performance



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

For illustrative purposes only. Not indicative of any specific investment.

Asset Allocation and Investment Policy

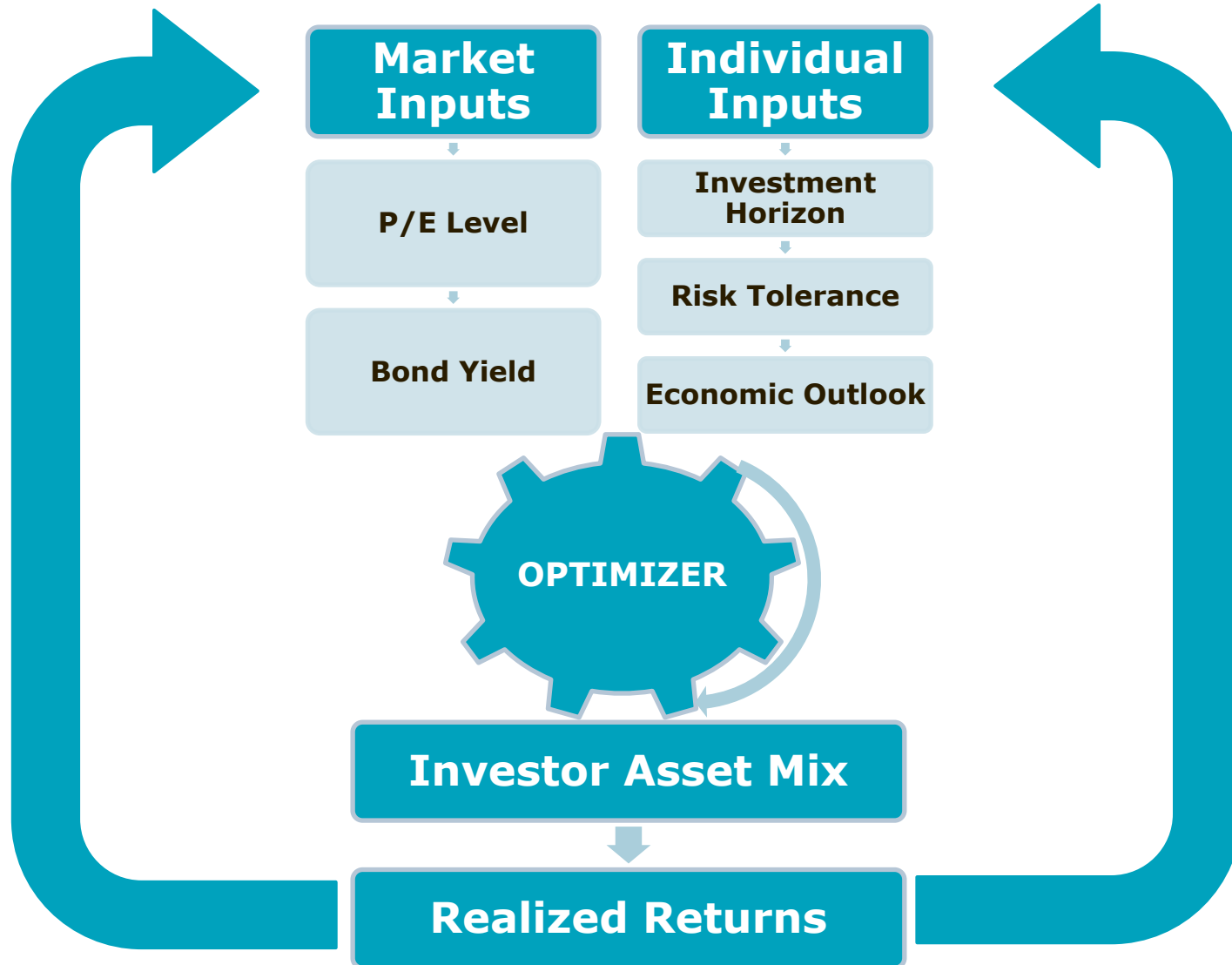
- An investment strategy is based on four decisions
 1. What asset classes to consider for investment
 2. What normal or policy weights to assign to each eligible class
 3. The allowable allocation ranges based on policy weights
 4. What specific securities to purchase for the portfolio

- 85% to 95% of the overall investment return is due to the first two decisions, not the selection of individual investments

Factors To Consider

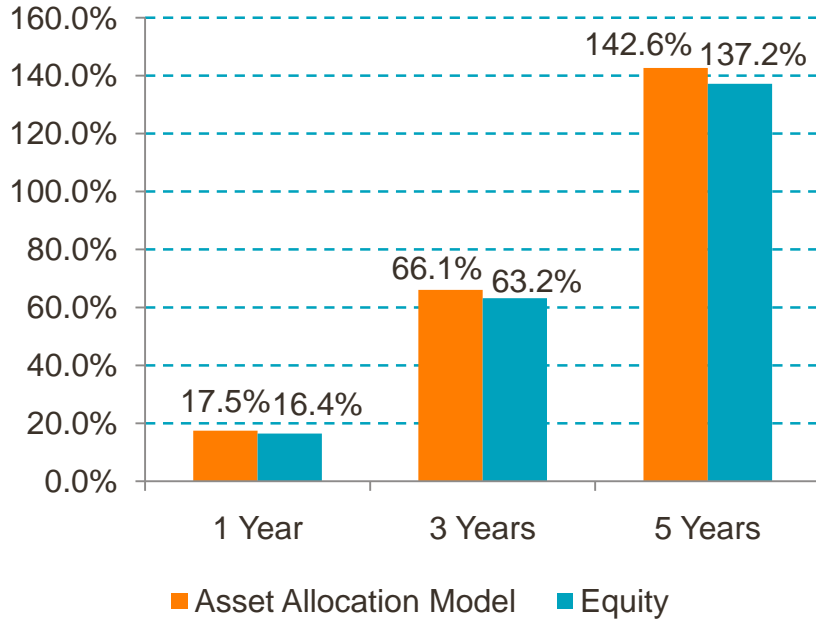
- Investment objective (e.g., retirement)
- Time horizon for a goal (e.g., life expectancy for retirement)
- Amount of money you have to invest
- Your risk tolerance and experience
- Your age and net worth

Asset Allocation Model

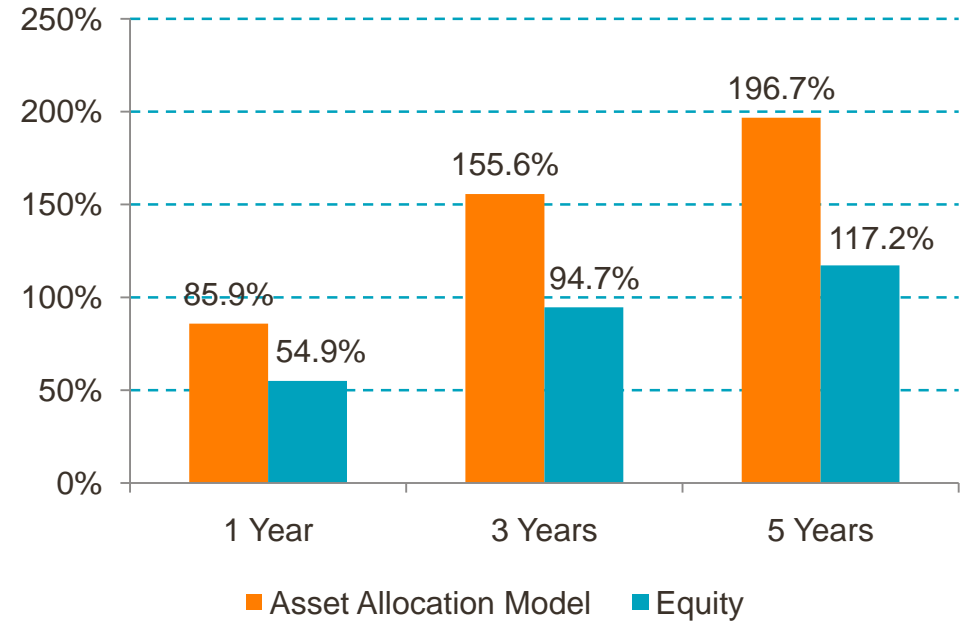


Model Output

Absolute Returns



Risk Adjusted Returns



Period	Equity S.D.	Asset Allocation Model S.D.	%age Drop in S.D.
1 Year	29.92%	20.33%	-32%
3 Year	66.74%	42.46%	-36%
5 Year	117.07%	72.51%	-38%

Thank You

Disclaimer

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