Asset Allocation - IAP

March-23

Life is not about how to survive the storm,
But how to dance in the rain.

Un-controllable & Un-predictable

Can you forecast the rain ?

Can you predict timing of rainfall?

Can you control its quantum as per your convenience ?

Can we say the same thing about financial market ?
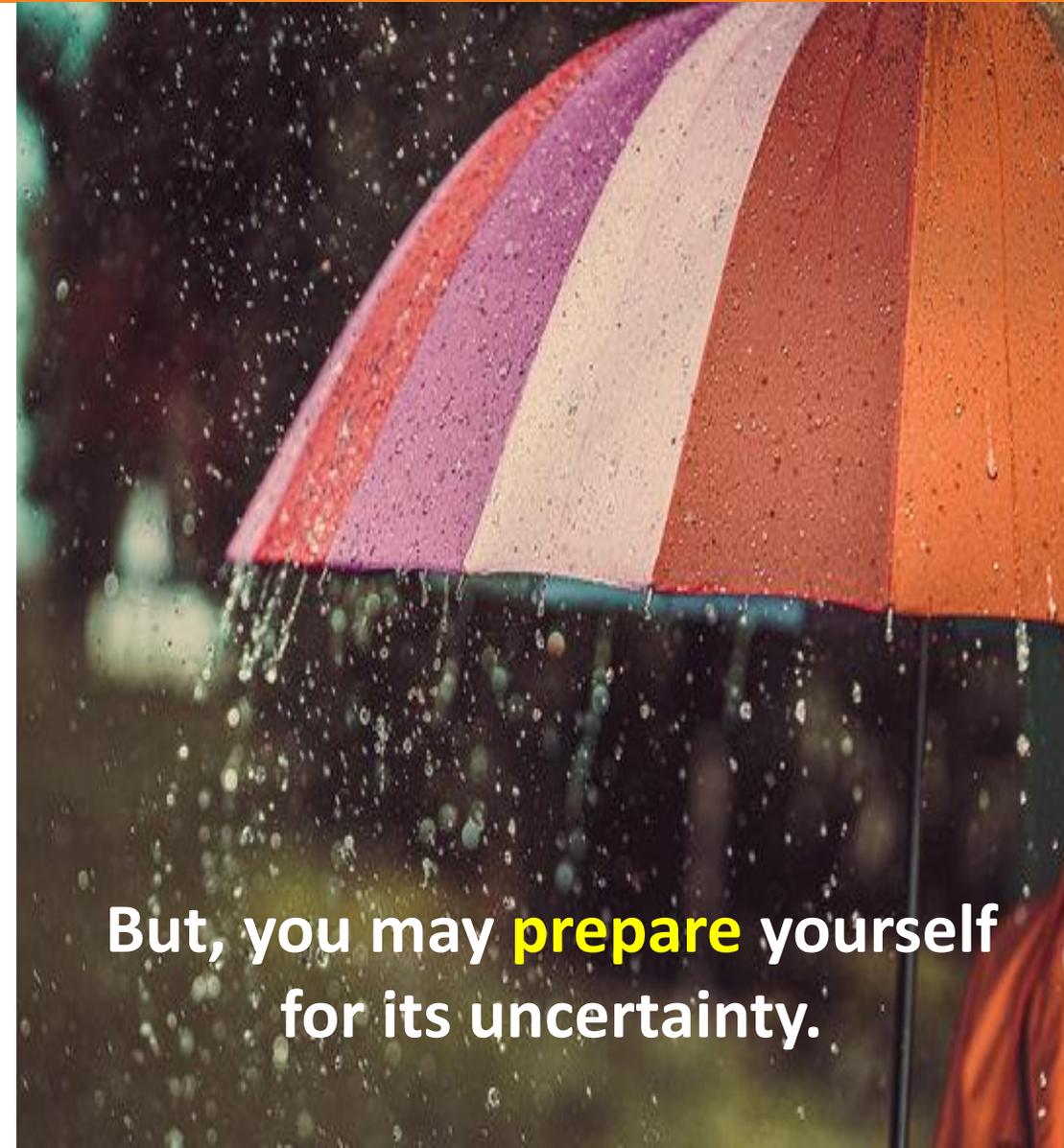
But, you may **prepare** yourself for its uncertainty.

How much uncertain it can be

Daily Returns of the Indices

CRISIL Composite Bond Index

2.4%

-3%

NIFTY 50 Index (TRI)

9%

-13%
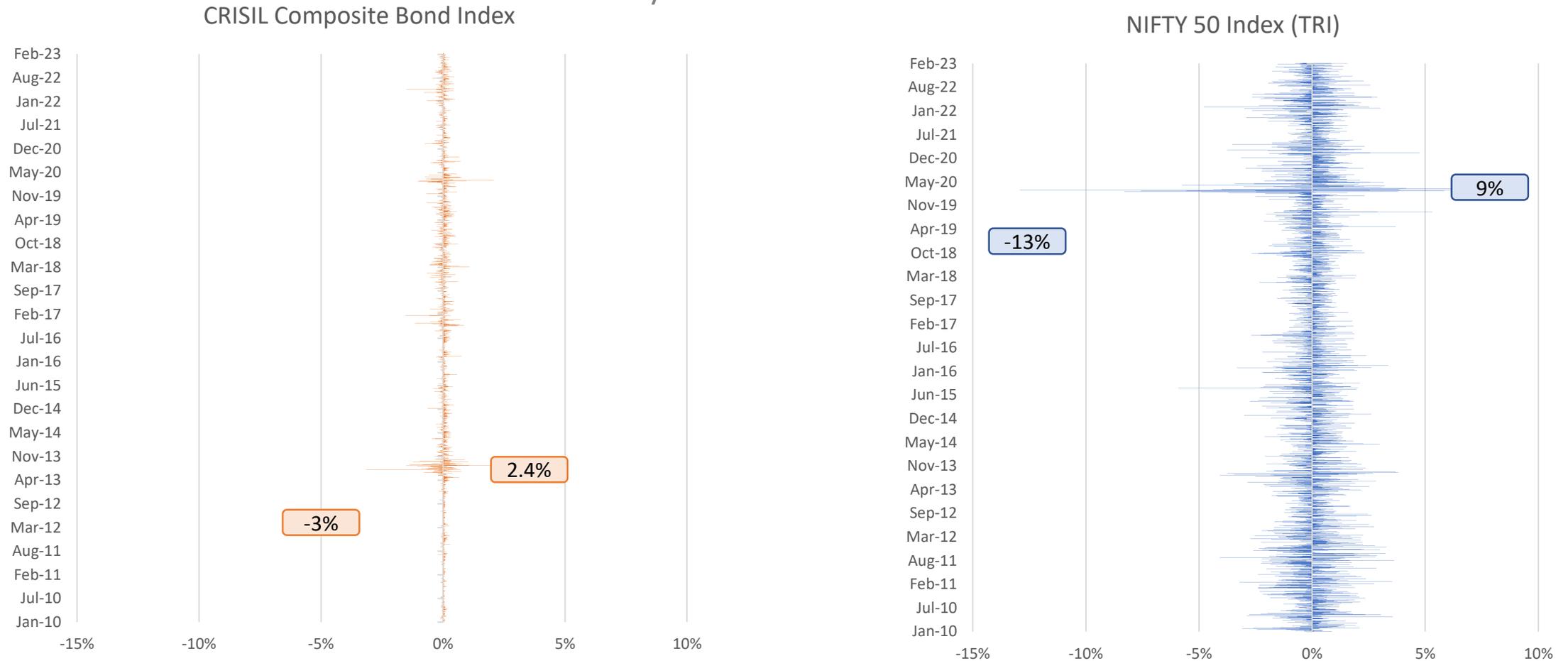
Highest single day movement in the past 13 years.

Risk- return dilemma

D

DEBT

- Relatively low returns than equity

- Low volatility

- Low to moderate risk appetite

- Could be suitable for short term and long term goals

E

EQUITY

- Relatively better returns than debt in the long term

- High volatility

- High risk appetite

- Long term duration is more attractive
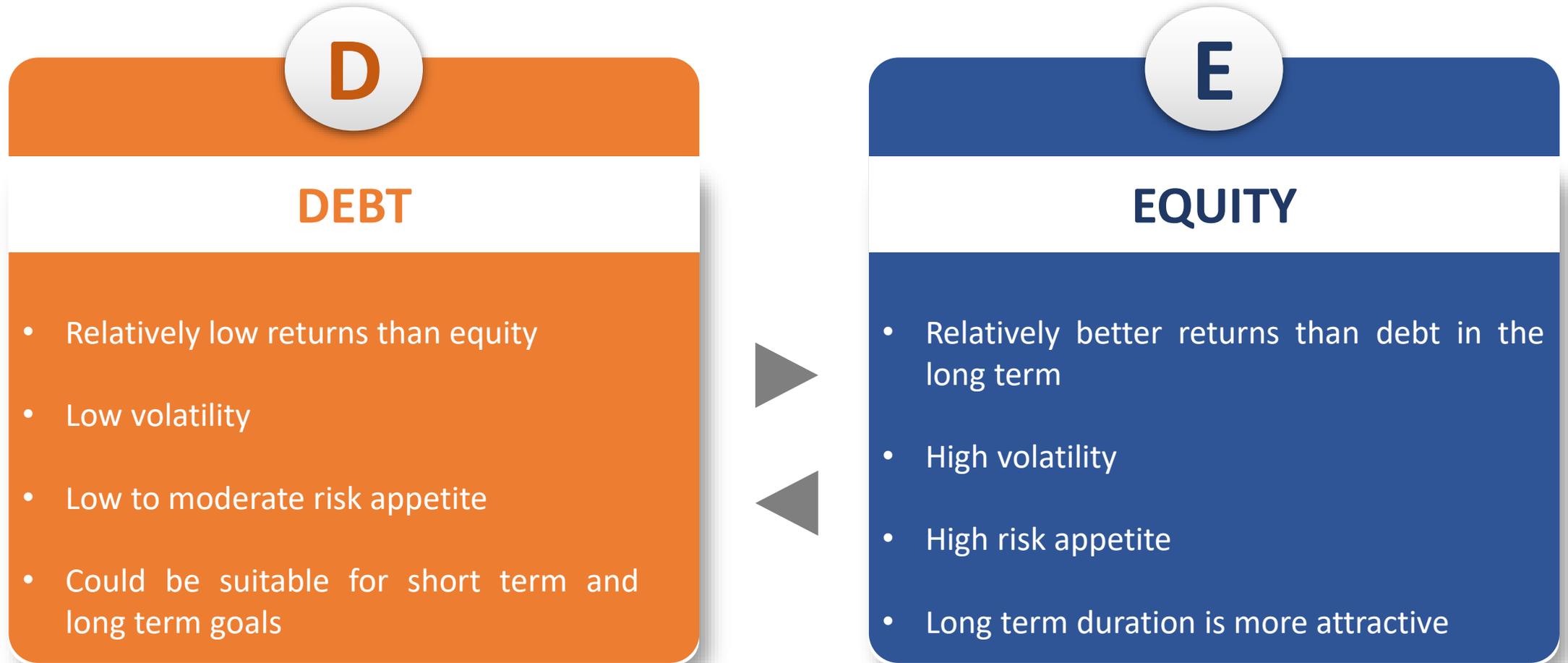
You pray for rain, you gotta deal with the mud too.

-Denzel Washington (The Equalizer)

Consult your financial advisor before investing.

Different paths for financial asset allocation

Asset allocation

01 Stocks

**02** Bonds

03 Cash

Scheme level asset allocation
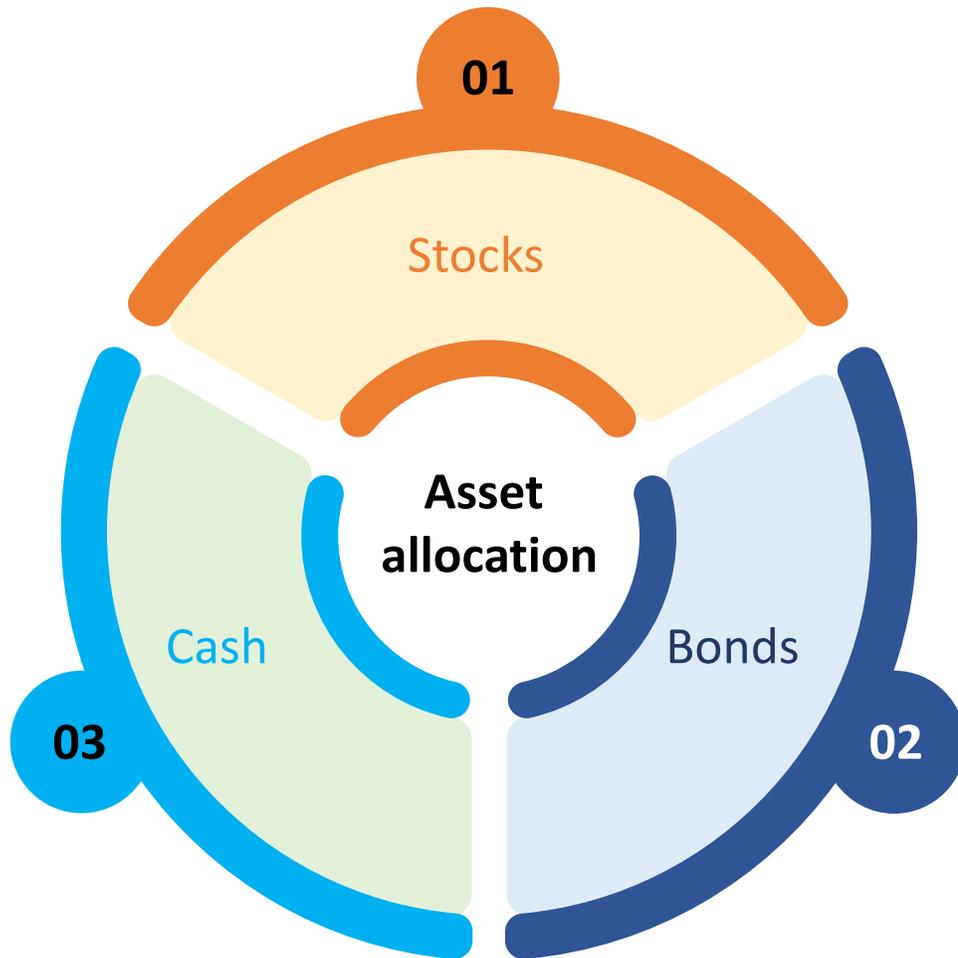
- Active allocation by fund manager.

- Ready portfolio allocation strategies as per investors' risk appetite.

Portfolio level asset allocation

- Need to create strategy for asset allocation.

- Mark to market impact changes asset allocation on frequent basis.

For illustration purposes only, not an exhaustive categorization of asset classes. Consult your financial advisor before investing.

Hybrid – middle path
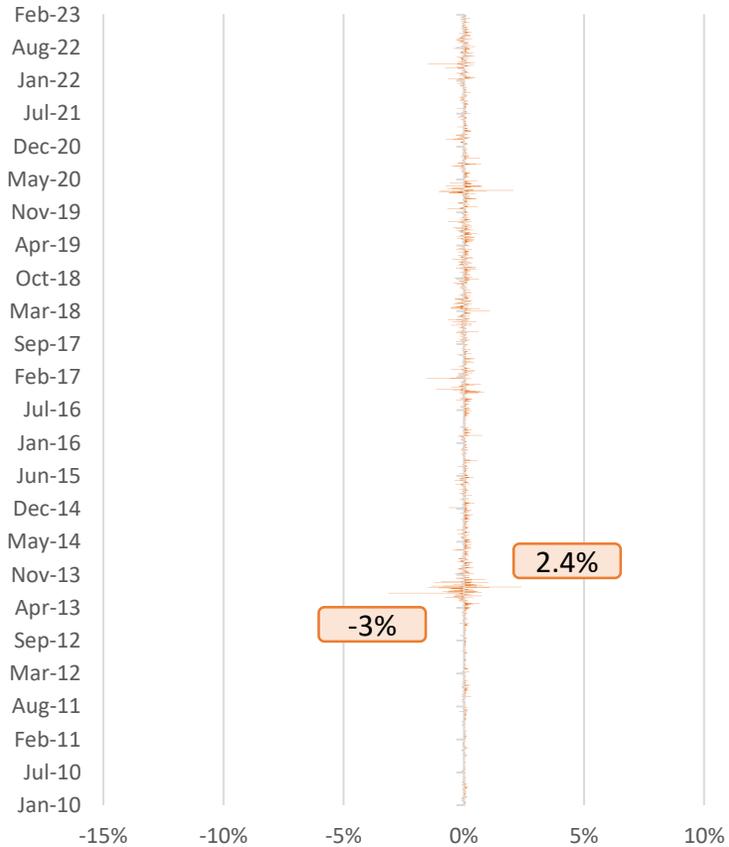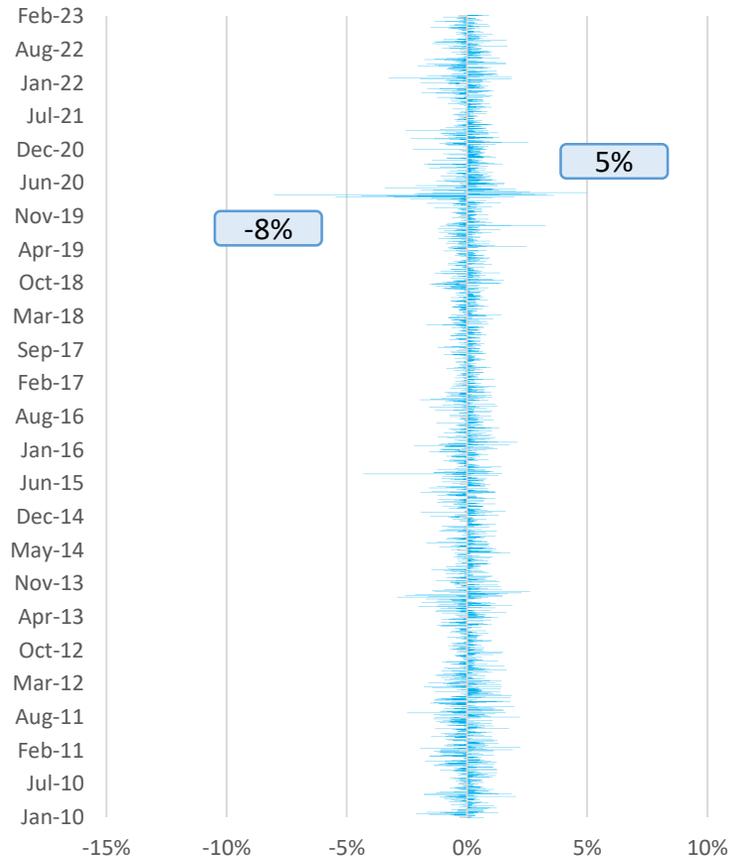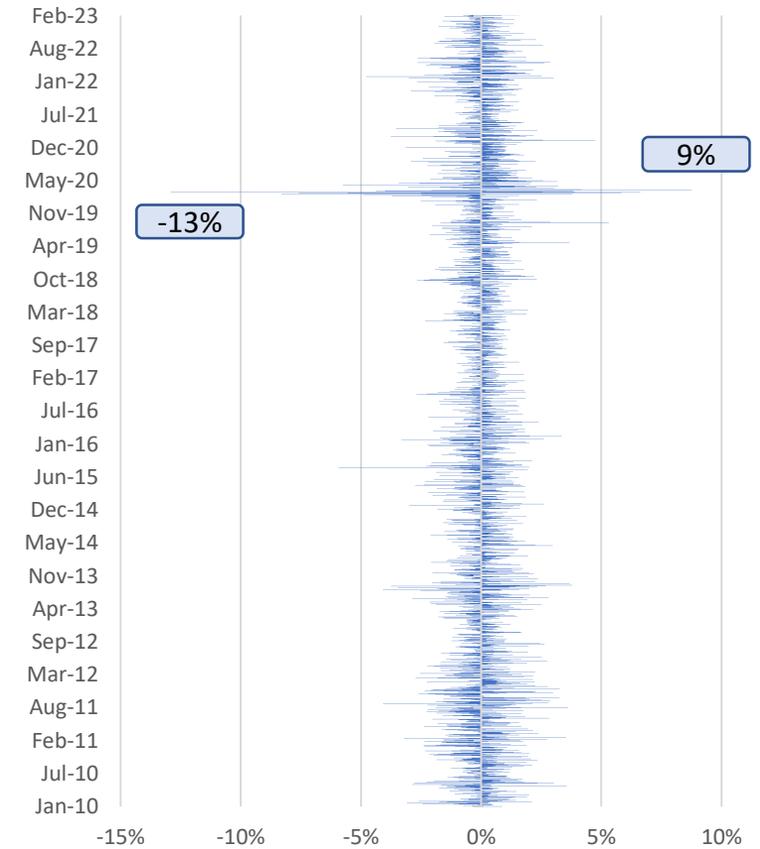
Mix of Equity, and Debt may reduce risk of the portfolio.

What is risk ?

Risk is the probability that actual results will differ from expected results, or potential financial loss.

What could be reasons for the risk to play out ?

Inflation

Interest Rate

Business Selection

Liquidity

Volatility

This is not an exhaustive categorization of financial risk. Consult your financial advisor before investing.
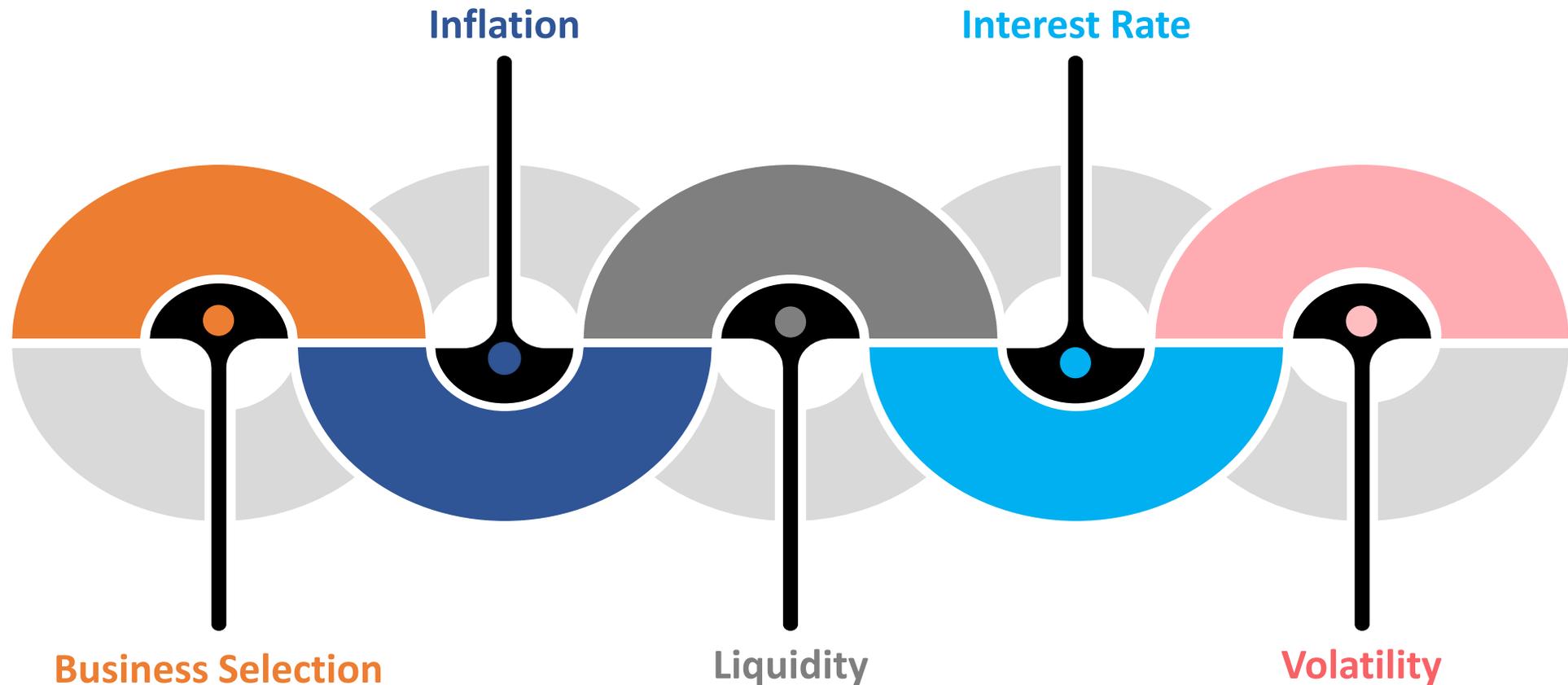
Measure of risk – Standard Deviation

Standard Deviation shows, variation of data points from its average.

All India rainfall for the month July from 2001 to 2010										
(In mm)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
July	281.1	143.8	306.5	250.5	334.1	287.6	286.2	245.0	280.7	300.7

Average rainfall over the period: 272 mm
Standard Deviation (σ): 52 mm

**This is an illustration to highlight how Standard Deviation (σ) may help to categorize spread-out numbers.**

3 year rolling returns of Hybrid Index vs Equity Index

Legend: NIFTY 50 Index (TRI) — CRISIL Hybrid 35+65 - Aggressive Index

Y-axis: Density of returns probability (0.0 to 10.0)
X-axis: 3 Year Rolling Returns (% CAGR) (-10.0% to 30.0%)

Average: 11.66%
Average: 12.11%
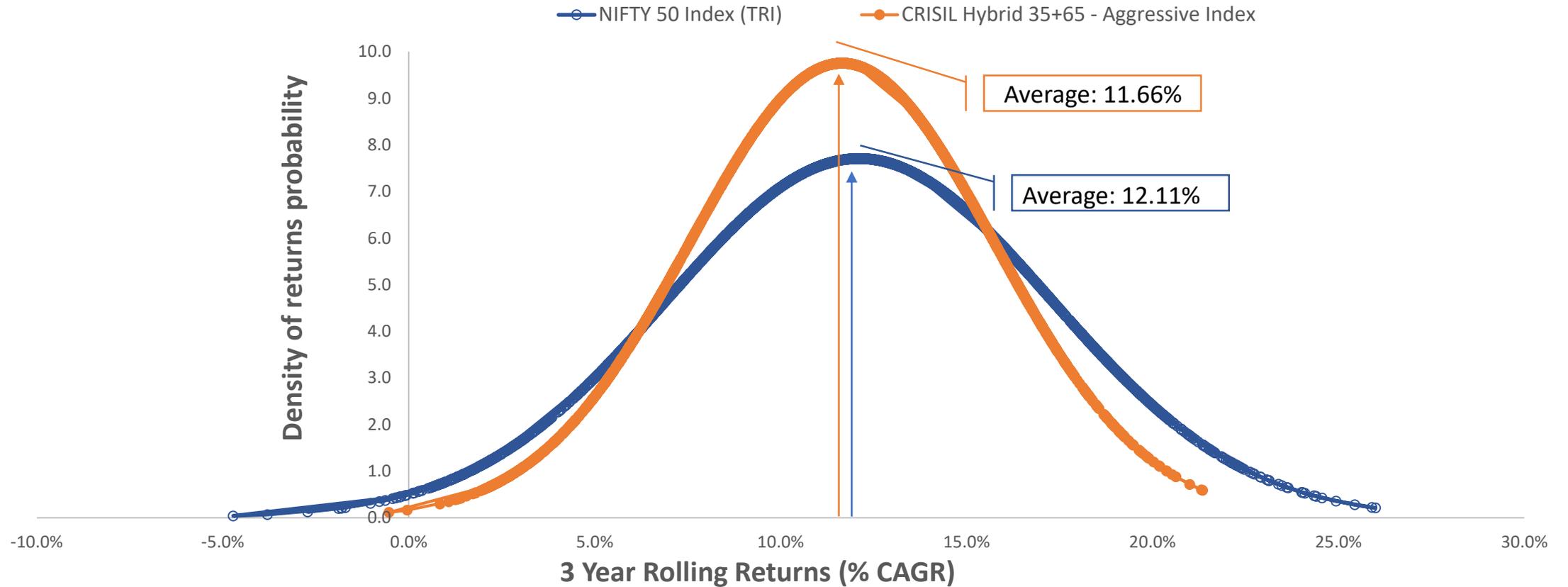
Between Jan-10 to Feb-23	Average	Min/Max	Standard Deviation (SD)
CRISIL Hybrid 35+65 - Aggressive Index	11.66%	-0.54% / 21.35%	4.1%
Nifty 50 Index (TRI)	12.11%	-4.72% / 26.0%	5.2%
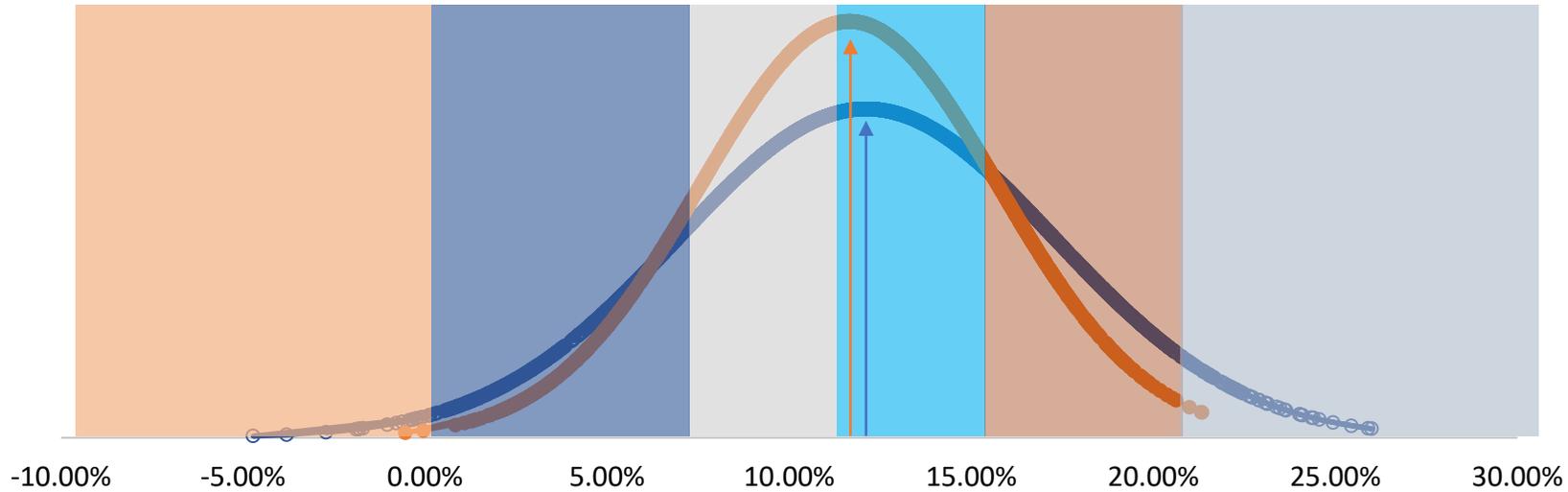
Return brackets

Occurrence of 3 year rolling returns in specific brackets

~ 2500 data points between Jan-10 to Feb-23	Negative	0% ≤ > 7%	7% ≤ > 11%	11% ≤ >15%	15% ≤ > 20%	Greater than 20%
CRISIL Hybrid 35+65 - Aggressive Index	0%	16%	21%	43%	21%	0.4%
				Average: 11.66%		
Nifty 50 Index (TRI)	1%	17%	21%	31%	26%	5%
				Average: 12.11%		

With less volatility using hybrid asset allocation,
portfolio may be placed into similar return brackets as that of equity returns brackets.

Appropriate Ingredients + Correct Amount = Great Taste

Different occasions need different offerings.

This is an illustration to highlight importance of different asset allocation as per personal goal.

Asset allocation & its outcome

CRISIL Corporate Bond Composite Index	Nifty 50 Index (TRI)	Average 3 year daily rolling return (% CAGR)	Risk (σ)	Min. rolling return (% CAGR)	Max. rolling return (% CAGR)
0%	100%	12.1%	5.2%	-4.7%	25.1%
10%	90%	11.7%	4.7%	-3.3%	23.5%
15%	85%	11.5%	4.5%	-2.7%	22.8%
20%	80%	11.3%	4.2%	-2.1%	22.0%
25%	75%	11.2%	4.0%	-1.5%	21.2%
28%	72%	11.1%	3.9%	-1.1%	21.6%
30%	70%	11.0%	3.7%	-0.9%	20.4%
35%	65%	10.8%	3.5%	-0.3%	19.6%
40%	60%	10.6%	3.3%	0.2%	18.8%
50%	50%	10.3%	2.8%	1.4%	17.3%
55%	45%	10.1%	2.6%	2.0%	16.5%
60%	40%	9.9%	2.4%	2.6%	15.7%
65%	35%	9.7%	2.2%	3.2%	15.2%
70%	30%	9.5%	2.1%	3.8%	14.8%
75%	25%	9.4%	1.9%	4.2%	14.4%
80%	20%	9.2%	1.8%	4.4%	14.0%
85%	15%	9.0%	1.7%	4.6%	13.6%
100%	0%	8.5%	1.6%	5.0%	13.1%

Degree of participation in different asset classes could provide difference in investment experiences.

Too much….. Too little

Too much risk

May result in your financial goals being exposed to the uncertainties of the market.
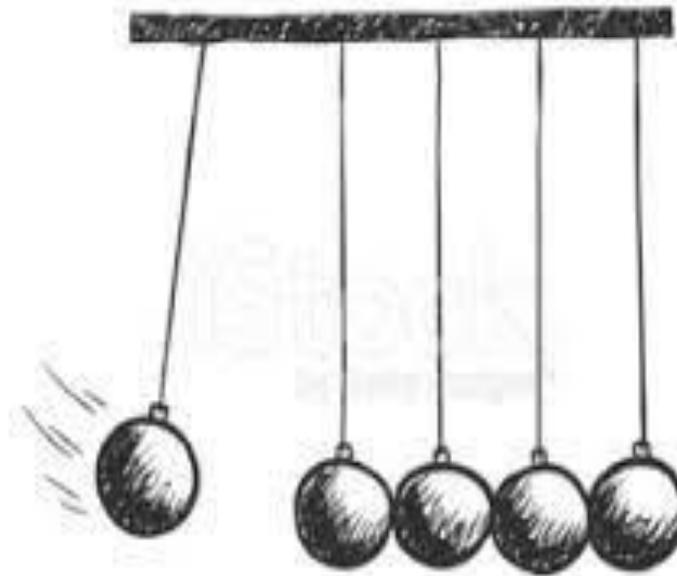
Too little risk

May reduce the chances of your financial goals not being met.

Asset classes behave differently in market cycles

Legend: □ Crisil Corporate Bond Index   □ Nifty-50 Index (TRI)   ■ Crisil Hybrid 35+65 Aggressive Index

Categories: CY 2010, CY 2011, CY 2012, CY 2013, CY 2014, CY 2015, CY 2016, CY 2017, CY 2018, CY 2019, CY 2020, CY 2021, CY 2022, CY 2023*
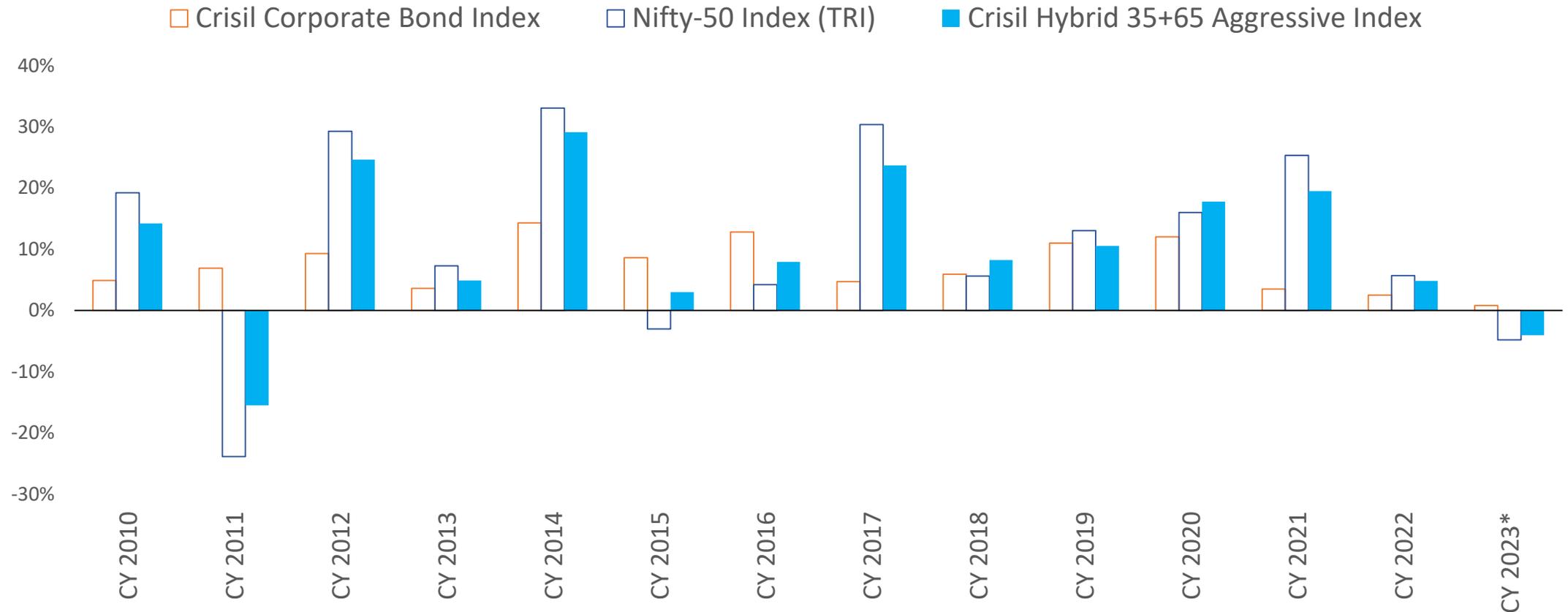
Hybrid funds aims to provide capital appreciation with volatility reduction by investing in different asset classes.

Source : AceMF, as on 28th Feb 2023 since 4th Jan 2010, Past Performance may or may not be sustained in future. *CY 2023 returns are upto 28th Feb 2023. Returns shown above are CAGR. The data shown above pertains to the Index and does not in manner indicate performance of any scheme of the Fund.

Every choice you make has an end result.

-Zig Zaglar (Author)

Don't put all your eggs in one basket

So, that your chickens could play in one playground

This is an illustration to highlight why you should consider asset allocation for achieving investment goals.

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