

■ STRATEGY

Navigating through volatile markets

It should be utilised to your advantage so that your investment portfolio delivers superior returns



GOPAL
AGRAWAL

GLOBAL markets have experienced heightened volatility in the last few months.

The widening contagion in the Eurozone and fiscal uncertainty in the US has weighed on equity markets. Indian markets too have seen rapid movements on either side as high inflation; peaking interest rates and high twin deficit take their toll. In fact the BSE-Sensex lost over 2,000 points in less than a month, taking it to a new two-year low before turning around and climbing by almost 500 points in just 3 days.

The most obvious reaction from an investor in such a scenario would be to sell the investment and avoid re-entering the market till signs of stability become visible. This behaviour eventually leads to missing out on opportunities to invest when the sharp decline makes quality stocks available at attractive prices. However as the adage goes, everything is clear in hindsight and seldom has any-

one been able to pinpoint the bottom in market levels.

WHAT IS MARKET VOLATILITY?

Volatility is a phenomenon wherein markets experience uncertainty resulting in bouts of upwards and downwards movements in index levels. Volatility is often described as the “rate and magnitude of changes in prices” and in finance parlance is often referred to as risk.

CHALLENGING MARKET CONDITIONS

While no investment strategy guarantees positive returns across all timeframes, one can take some simple yet effective steps to ensure

they are able to navigate through market volatility in a planned and process oriented manner:

STAY INVESTED: Watching one’s portfolio returns fall is a heart stopping event for any investor. However, one of the best ways to safeguard your investments from being affected by market volatility would be to avoid taking any action. This means staying invested for the long-term and not paying attention to short-term fluctuations.

ASSET ALLOCATION CRUCIAL: One should begin by defin-

ing one’s financial goals, risk appetite and time horizon; followed by careful asset allocation plan which becomes the basic building block to achieve the financial goals in the required time frame.

DIVERSIFICATION IS KEY: most essential component of asset allocation is to diversify one’s portfolio. Diversification is the process of spreading one’s investments across different asset classes. This ensures that one’s portfolio is not exposed to the risks of a single asset class and at the same is able to take advantage of the upside witnessed in different asset classes at different points in time.

Invest through equity mutual funds. Exposure to stock markets through mu-

tual funds is a convenient, affordable and prudent way for retail investors, since mutual funds offer you opportunity to avail the services of expert fund managers at marginal cost.

SIP ROUTE: Volatile markets result in fall in stock prices more due to market conditions rather than business fundamentals. Investing through SIPs helps one take advantage of market volatility since one is able to purchase more units of the scheme when markets fall and less units when markets rise thereby averaging the purchase cost. This leaves the investment with reasonable scope to generate sizeable returns when a rebound occurs.

Volatility is an inherent characteristic of stock markets. Instead of getting perturbed by the same, investors would do well to adopt the above measures and thereby craft their investment portfolio in a manner that it is armed with all the right ingredients to take advantage of market volatility and thereby deliver superior returns in the long term. ♦

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