Here's How To Build An All-Weather Portfolio

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One of the key factors that can help you achieve investment success over the longer term is to ensure that your portfolio is dynamic. In other words, the portfolio should be able to manage the risks as you carry on with your process to create wealth over time. However, considering that different asset classes are driven by different considerations, it can be quite challenging to build a portfolio that can deliver stable returns during the bull and bear markets.

A strategy that can help you achieve this effectively is to build an all-weather portfolio that not only can tackle various market scenarios but also minimises losses and maintains stability during these periods. The concept of an all-weather portfolio was developed by Ray Dalio, a billionaire investor and founder of Bridgewater Associates, the largest hedge fund in the world.

The objective was to simplify diversification by building a well-rounded portfolio through investment in stocks, bonds, and commodities and manage risk over the long term. There are two ways to build an all-weather portfolio. The first approach can be to follow an asset allocation model wherein short-term investments are made in debt and debt-related instruments, medium-term investments have a mix of debt, and equity and long-term investments focus on equities to able to earn a positive real rate of returns.

If you remain committed to your time horizon and follow a disciplined investment approach, this strategy can ensure that at least a part of your portfolio will do well, irrespective of the market conditions. However, rebalancing between different asset classes can be a bit tricky since it requires you to time it right and consider factors such as taxation and exit loads, etc. Of course, if you are an active and committed investor, you will figure out how to do it right.

The other way is to consider investing in all-weather funds. This approach can be effective for investors who are not very active and may lack the wherewithal to rebalance their portfolio effectively. All-weather funds can be a good addition to the portfolio as they aim to provide stability and steady returns

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despite the unstable nature of the economy and the markets. In other words, all-weather funds can minimise the impact of a variety of market circumstances and help investors build a well-balanced and diverse portfolio that can perform well in different market environments i.e. positive and negative through diversification as well as managing risk by curbing the impact of volatility.

Amongst the categories of all-weather funds offered by mutual funds, the prominent ones are- equity savings funds that have restricted exposure to equities along with arbitrage and debt instruments, balanced advantage funds wherein asset allocation between equity, arbitrage and debt instruments is managed dynamically in line with the market valuations, aggressive equity hybrid funds that always maintain higher exposure to equities with some exposure to debt, multi-asset funds that offer a minimum of 10 per cent exposure to at least three asset classes like equity, debt, gold and international equities along with the flexibility whereby fund managers can realign the portfolio in line with the emerging trends.

While there are a few all-weather debt FOFs and bond funds, they are restricted in terms of asset allocation as the money is invested in debt funds alone. As is evident, an all-weather portfolio can help in keeping your investments on track to achieve your goals and earn steady returns. Remember, mutual funds offer a variety of funds as well as provide flexibility, tax efficiency and transparency required to build an all-weather investment portfolio.