



Stay Put Despite A Rocking Boat

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The current volatility in the stock market can be attributed largely to geopolitical tensions, global economic uncertainties, FII outflows, IPO action and mixed corporate results. This is the first real test of patience for investors who began investing in equity funds over the last couple of years. While market volatility can add an element of uncertainty, it is important for long-term investors not to panic. The main advantage of maintaining your asset allocation at all times is that it minimises your chances of missing out on sudden rallies in the market.

Someone who has spent time in the stock market would know that it is quite normal for it to go up and down during certain periods. Therefore, while a seasoned investor may take volatility in his stride, a new investor could get tempted to react in a manner that may be detrimental to his fortunes. No doubt, the current market situation also provides good investing opportunities. However, the temptation to time the market with the hope of making a quick buck can expose you to a high-risk situation.

Remember, even full-time professionals like fund managers find it difficult to time the market successfully and consistently. Of course, if you have an investible surplus that can be put aside for the longer term, it can be invested as a combination of lump sum and systematic investing. Considering that market volatility is an unpleasant reality of the marketplace, you must diligently follow strategies that could help you tackle it. To begin with, it helps to diversify the portfolio.

Diversification not only reduces risk but also helps in optimising returns on a risk-adjusted basis. It is equally important to ascertain that funds from different fund families in the portfolio do not hold the same stocks in a very high proportion. If they do, it will have an impact on the level of diversification you need to achieve through them. Also, you must avoid heavy concentration in a specific category of funds, sectors, segments and a particular fund house.

Over some time, the mix of assets in your portfolio may become inconsistent with your original asset allocation. Rebalancing the portfolio in a planned manner makes your portfolio less prone to volatility. A disciplined investment process is another strategy that reduces the impact of market volatility on the portfolio.

Another important strategy is to rebalance the portfolio periodically. Rebalancing is a disciplined method of maintaining proper allocation to each asset class in your portfolio at all times. Over some time, the mix of assets in your portfolio may become inconsistent with your original asset allocation. Rebalancing the portfolio in a planned manner makes your portfolio less prone to volatility. A disciplined investment process is another strategy that reduces the impact of market volatility on the portfolio.

Investing in mutual funds through SIP, wherein you commit to invest money on a fixed date in a pre-decided fund regardless of whether the stock market is declining or ascending, can help you maintain this discipline. The idea behind this strategy is to take emotions out of your investment process as you don't have to worry about the right or wrong time to invest. Besides, this cuts down on the risk that you may normally face while investing a lump sum amount at market highs.

Remember, it is very difficult to predict the movements of the market over a short-term period.

Last but not least, having a long-term view of investments helps in reducing the risk automatically. If you have a clearly defined time horizon, you can wait for the stock market to recover. Therefore, it would not be wrong to say that the right approach to handling all kinds of markets, especially a volatile one, is to remain committed to your time horizon and maintain focus on your investment plan and objectives.

