Strategy Is The Name Of The Game

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All of us invest with the intent to earn healthy returns so that different investment goals can be achieved within a defined time horizon. However, to achieve this, one must have a process in place and maintain a balance between risk and reward. Some of the key factors that play a significant role in this process are asset allocation, attitude towards risk, time horizon and the extent to which risks to life, health and assets are covered through insurance.

Investors often err in creating a portfolio which doesn't reflect what they intend to achieve through it. Any imbalance in the portfolio can negatively impact the outcome of your investment process. For example, if you don't take enough risk, healthy returns will remain a distant dream. However, taking too much risk could turn your dreams into the worst of nightmares. This is where an asset allocation strategy helps in keeping your investments on track to achieve the desired results.

Remember, asset allocation is the process of combining various asset classes such as equity, debt, real estate and commodities into your portfolio. While asset allocation provides a roadmap, it is equally important to stay on course to benefit from the power of compounding. It is important to note that the real power of compounding comes with time. Essentially, compounding is the idea that you can make money on the money you have already earned. That's why, the earlier you start investing, the more your money can work for you. No matter how young you are, the sooner you begin investing, the better.

Another significant aspect of successful investing is having a strategy for exiting from an investment. A proper strategy helps you avoid making decisions that are dictated by emotions rather than any logic. You must do a thorough analysis before deciding to sell. One of the important aspects is to focus on long-term track record rather than short-term performance. A long-term track record moderates the effects which unusually good or bad short-term performance can have on a fund's track record.

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In an era of constant changes and volatile financial markets, it is important to keep your investments on track through your defined time horizon. While it is always advisable to take an interest in your investment process, the 'do it yourself' (DIY) strategy could expose you to unwarranted risks if you are not sure about your ability to make the right investment decisions. Although investing in a regular plan is more expensive as compared to a direct plan, the benefits of working with an expert far outweigh the increased cost in the long run.

Last but not least, the tax efficiency of portfolio returns plays a crucial role in improving the real rate of return in the long run. Tax efficiency becomes even more important when you invest to achieve medium-term to long-term investment objectives like children's education, buying a house and retirement planning. After all, how much you get to keep at the end of your time horizon decides how successful you will be in achieving your investment goals.

Investment options like mutual funds provide tax-efficient returns. For example, long-term capital gains (LTCG) i.e. any gains from an investment in equity and equity-oriented fund held for 12 months or more that exceed Rs 1.25 lakh in a financial year are subject to a 12.5 per cent tax rate. For investors in higher tax brackets, it can make a significant difference when compared with taxation on traditional options wherein the returns are taxed at their nominal tax rate. Therefore, you must have a 'tax aware' investment strategy in place to improve your post-tax returns.