

PORTFOLIO DOCTOR

Safe and Sorry

Given his age and financial condition, Hemant should move away from debt instruments and increase his long-term exposure to equities. He should also pare down his fund portfolio and concentrate on fewer funds

Managing money is always a difficult business and investing it in equities is fraught with risks. But if you want to earn decent

long-term returns, it is difficult to steer clear of equities. In the long term, a well-rounded portfolio of stocks is more likely to fetch high returns than any other asset.

Some people lose out because they see only the gains and get greedy. But others, such as 38-year-old Hemant stunt their returns by avoiding equity because they see only the risks. Hemant is a consult-

ant in a Pune-based IT firm and earns a handsome Rs 10 lakh every year that supports his family of three. He is a compulsive saver but due to a conservative investment strategy, he has not been able to optimise his returns.

Hemant holds some 29 mutual funds and a good number of scrips separately as well. But his total equity exposure constitutes only 8.5% of his investments. His fund portfolio includes Reliance Growth, Birla Mid Cap, Franklin India

Name: Hemant (with wife and children)
Age: 38
City: Pune
Occupation: IT Consultant
Annual income: Rs 10 lakh
Financial dependents: Three



Photograph by MOHD YUSUF

PORTFOLIO DOCTOR

Prima, HDFC Equity, HDFC Prudence, Magnum Contra and Magnum Global. He also holds giant blue chips such as ONGC, NTPC, Infosys, Satyam and Tata Power.

The bias towards security is evident in Hemant's heavy investment in debt—he has approximately Rs 17 lakh held in a combination of monthly income schemes, government bonds and fixed deposits. Another Rs 2 lakh investment in gold further emphasises his safety-first attitude.

Real estate is the one booming sector, which promises the best of both worlds to middle-class Indians—secure yet assured returns. Hemant has an apartment in Pune that's now worth nearly Rs 60 lakh. He is paying an EMI of Rs 15,000.

He is sensible about insurance, focusing only on term policies. He has total cover of Rs 38 lakh held through six term policies. This seems to be more than adequate to cover the family's expenses in case of his untimely demise. The only missing element is health insurance to provide a cushion against all medical expenses.

We think that Hemant needs to up the ante in terms of risk and increase his long-term exposure to equity. Given his financial

DOC SAYS
Do not invest in too many mutual funds. They become difficult to track

oriented mutual funds.

He also needs to clean up his fund portfolio by consolidating into fewer funds. He has invested small proportions across too many funds to track efficiently. However, his selection of funds is not bad. A majority enjoy high ratings. Barring the two ELSS funds (which cannot be touched at the moment since they come with a lock-in), eight of his

DOC SAYS
Always take up health insurance to cover medical bills which tend to rise with age

remaining 24 funds are not rated. And this is where he can consolidate—he should exit these relatively new funds.

Among the remaining 16 funds, it is a tough call. We advise that the following funds should form the core of his portfolio and as such account for 12-14% of his total exposure to funds—HDFC Equity, Franklin India Bluechip, Magnum Contra, Reliance Vision and DSPML Top 100 Equity.

He has small investments in two hybrids funds—HDFC Prudence and Kotak Balance. Since he already has a lot of debt investments, he can exit these two funds. But please note that these funds are not bad investments. It's just that they look like overkill in the context

of his portfolio with its heavy direct debt exposure of 19.8%.

He can instead consider a larger mid-cap exposure through good mid-cap funds already present in the current portfolio—Franklin India Prima, Reliance Growth, Sundaram BNP Paribas Select Midcap and Magnum Global. The first two should be retained in their current proportion, while the allocation to the last two should increase. With these changes, the number of funds (including the two ELSS funds) will reduce to 11.

Hemant's choice of stocks is conservative but there are no quality issues. Most of his holdings are strong companies with sound fundamentals.

But unlike mutual fund investments, one has to monitor direct stock investments more regularly. Given his wide-spread mutual fund net, it may be easier for him to avoid duplication and simply rely on mutual funds to do the job for him.

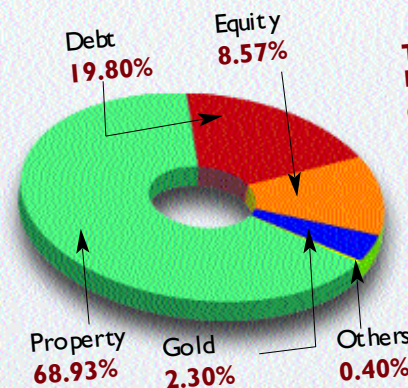
The bottom line is—don't shy away from the stock markets. Equity carries obvious risks but it offers very high returns in compensation. The risks smoothen out in the long term, the returns remain high. As an asset class, it consistently outperforms other assets in the long run.

An elderly person should not be over-invested in equity because of the risk factor. But somebody at Hemant's point in the life cycle can comfortably increase his exposure to equity to 25% of his overall portfolio and hold it close to that level for the next 15 years.

Need help with your investment plans? Log on to www.moneytoday.in and click on Portfolio Doctor to submit your portfolio and read more cases

HIS FINANCIAL CONDITION

Asset Allocation



TOP 5 EQUITY HOLDINGS (%) *

ONGC	6.72
Infosys	5.44
Bajaj Auto	4.78
TCS	3.81
Tata Power	3.36

TOP 5 SECTORS (%) *

Technology	19.43
Energy	17.88
Automobile	10.87
Construction	9.37
Financial Services	7.14

*Combines direct equity holdings and equity holdings through funds

DIAGNOSIS

ULTRA-CONSERVATIVE ASSET DISTRIBUTION WITH VERY LOW (8.5%) EXPOSURE TO EQUITIES

ADEQUATE INSURANCE COVER OF RS 38 LAKH FOR DEPENDANTS BUT NO HEALTH INSURANCE

OVER-DIVERSIFIED MUTUAL FUND PORTFOLIO, WITH INVESTMENTS IN 29 SCHEMES

PRESCRIPTION

ALLOCATE MORE FUNDS TO EQUITY

● Over the next 2-3 years, equity exposure should increase to at least 20% of total assets

REJIG AND CONSOLIDATE MUTUAL FUND PORTFOLIO

● Exit funds that are unrated or under-performing

● Consolidate investment in 9-10 equity-diversified funds

RETAIN INSURANCE COVER

● Add a health insurance package to tide over medical expenses. Medical costs tend to add up when you get older and premiums also rise

FUND PICKS FOR KUMAR

Fund Weightage	
ELSS	
Reliance Tax Saver-G	3.14
Birla Equity Plan-G	3.13
Sub Total	6.27
Non-ELSS	
Franklin Bluechip	14.00
HDFC Equity	14.00
Magnum Contra-G	14.00
Reliance Vision-G	12.00
DSPML Top 100	12.00
Magnum Global-G	6.07
Sundaram Sel M-cap	5.00
Franklin Prima-G	7.93
Reliance Growth-G	8.74
Sub Total	93.74
TOTAL	100.00

