Ketchum Sampark break through

Be diversified, be conservative

Look for unanticipated growth and restructuring or corporate action to drive returns

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AS WE step into 2012, it's worth thinking about the changes that 2011 has brought about in the investment climate. The India story seems just a little tarnished; global and local macroeconomic factors seem dominant in making investment decisions. Uncertainty and doubt rule. It has been a very tough year.

So what will 2012 bring about? Unfortunately, a change of calendars does not presage a change in investment conditions. 2012 is likely to see conditions that are similar to 2011 in turns of growth, global uncertainty and the importance of macroeconomic factors in making investment decisions.

For the average Indian investor, there are five key investment options. Cash, fixed income (bonds), equities and now with the advent of ETFs, gold. For the more evolved investor trading in stocks, commodities and currencies is an option. Asset allocation across these investment classes is likely to be the key to portfolio returns as it is unlikely that any one asset class will dominate like equities dominated debt over 2003 till the end of 2007.

Asset allocation is typically based on three key inputs: The investor's profile and risk appetite, a view on the probable return from various asset classes and the risk involved in each. Get a risk profile done, learn about the level of risk you want and the level of risk you can afford. Financial planning is cheap in India and offers value. Going beyond that bit of essential housekeeping, here are some views that could help construct a portfolio in the coming year.

The key themes that are likely to play out in the coming year are large swings in liquidity driven by risk and policy actions, slow growth and falling inflation. In this environment the key elements of portfolio construction are likely to involve the following:

Use a financial planner to guide your asset allocation plan. They will bring discipline and process into portfolio construction. The current environment needs both — these are uncertain time. While

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we may believe interest rates are headed downwards, we can never be fully sure about the trajectory It would also be unwise to bet big on any single asset.

Be diversified and just a little conservative — have some component of all the relevant asset classes (equity, cash, bonds and gold) in your portfolio.

In terms of equity, stick to larger companies for now and look at mutual funds with a good track record to invest into. Stay with large-cap diversified funds. If you have an SIP or a structured investment plan, stick to it. Do not give up on equities. An economy that grew at nearly 7% despite a 5% increase in interest rates and adverse changes in the prices of key commodities must have something going for it.

If you like investing in stocks on your own, keep in mind that the market has priced in the current environment quite well. Great stocks are expensive and cheap stocks are vulnerable. Look for unanticipated growth and restructuring or corporate action to drive returns.

In terms of cash, use short-terms funds and fixed deposits. For an allocation into bonds, avoid credit risk, stick to AA+ or better rated companies. Use a mix of short-term income funds and gilts for acquiring duration.

Look at a small allocation into gold. In the current environment of disinflation, the near-term price of gold (in dollars) may be volatile but if any large risk crystallises, gold could be a key safe haven.

Good luck and happy investing.