



EDELWEISS  
MUTUAL FUND

# ASSET ALLOCATION

## Asset allocation – meaning, types, and importance

Deciding on a wedding menu can be an uphill task. There are multiple food options, and catering to everyone's likes can be challenging. Therefore, keeping a perfect blend of sweet and spicy foods, cool and hot beverages, and veg and non-veg options is important. Asset allocation is like the diverse menu for your investment portfolio. It ensures that your portfolio has the right mix of assets.

Find out more about asset allocation, its importance, and its types.

### What is asset allocation?

Asset allocation is an investment strategy that allocates your money among different investment types, such as equity, passive debt, cash or cash equivalents, gold, real estate, etc, in line with your goals and risk appetite. All asset classes carry different amounts of risk and perform differently at a given time in the market. The primary purpose of asset allocation is to invest in multiple asset classes to lower your portfolio's overall risk.

Moving on, let's look at the different types of asset allocation.

### Types of asset allocation

- **Strategic asset allocation:** Also known as static asset allocation, this strategy invests in targeted asset classes within the specified range irrespective of market conditions. For example, you decide to invest 65-75% in equity and 25-35% in debt. This approach involves periodic rebalancing to maintain the pre-decided asset mix.
- **Dynamic asset allocation:** Opposite to the static allocation strategy, dynamic allocation involves changing the allocation as per fluctuating market conditions.
- **Tactical asset allocation:** This is the same as strategic asset allocation. However, it offers you the choice to make occasional changes to your portfolio to take advantage of emerging market opportunities.

### Importance of asset allocation

Asset allocation is essential for a number of reasons, such as:

- **Risk management:** The primary objective of asset allocation is to minimise risk. For instance, investing in only small-cap funds can induce high risk to your portfolio. But maintaining a mix of small, mid, and large-cap funds aligned to your risk appetite and needs can be helpful to lower risk.
- **Minimise tax:** Different asset classes are taxed differently. For example, equity funds attract long-term capital gains on investments held for over a year, whereas a debt fund attracts long-term capital gains on investments held for over three years. Asset allocation helps you manage your taxes by investing in the right combination of assets that cater to your needs without increasing your tax dues.
- **Optimal return:** Asset allocation is a planned investment strategy as opposed to emotional investing or investing on hearsay. It offers you a clear roadmap and helps you follow a fixed strategy that aligns with your financial goals. As a result, the returns are far more likely to be in line with your expectations.

## Conclusion

Adopting a suitable asset allocation strategy is essential to mitigate investment risk and ensure financial success. You can do so by investing in a mix of equity, debt, cash, real estate, etc., or by investing in a hybrid mutual fund that automatically adjusts its exposure between multiple asset classes. No matter what you choose, make sure you understand the pros and cons first and make an informed decision.

An investor education initiative by Edelweiss Mutual Fund

All Mutual Fund Investors have to go through a onetime KYC process. Investor should deal only with Registered Mutual Fund (RMF).

For more info on KYC, RMF and procedure to lodge/redress any complaints, visit - <https://www.edelweissmf.com/kyc-norms>

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**