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Hawk-Eye view of my investment journey!

Dear Investors and Advisors,

I don't want to write about the month of March. Because, so much has already been said, and not much of the road ahead can be predicted.

Instead, I want tell you a story from 15 years ago. I had started earning in the year 2005, a fresh Wharton graduate cutting her teeth on Wall Street, and like many young people, aggressive, ambitious, with a high opinion of my own investing abilities. I started saving and made my first investments in 2006, allocating 100% of my bonuses between US and foreign equities. The portfolio did well in 2007, I added to this allocation, and was feeling quite good about myself.

And came 2008. My personal portfolio fell more than 50%. Bonuses disappeared on Wall Street, as fund AUMs shrank and returns were in the red, and jobs were under question. ESOPs collapsed in value. To compound this, my husband also worked in the same profession, with the same investment allocation.

I was distraught. We were two middle class individuals who had worked hard to save money, and lost 50% of it in a market crash, despite being investment professionals ourselves. It seemed completely foolish and illogical. By then we had also thought of moving to India in early 2009 to set up a business, and were sure we wanted to go ahead with the plan. The business required capital, and so before we left the US, in early 2009, we also had no choice but to redeem our investments – all of which were in the red – to begin our new life in India.

The dust settled on the 2008 crisis, life came back in 2009, but I did take the opportunity to reflect on the crisis that happened to me. What no finance course had taught me, this experience did.

- Asset allocation matters, and it matters for two practical reasons that books sometimes don't explain. One is asset allocation cuts your losses. Being in 100% equities meant that I took a 50% cut, being in 50% equities and the balance debt, would have meant a 25% cut. The difference between 25% and 50% is what was needed to emotionally keep me invested and in the game. The second is that asset allocation ensures you have some liquid assets – in this case fixed income – so that if you really need money, like I did, you can withdraw things that are not down 50%.
- Withdrawing equities after a cut is the worst thing that you can do, whether it is outright redemptions out of equities or similar things, like stopping SIPs. I did this, and at the worst time (although there was no choice), just before markets had bounced back. My notional losses became real losses because I didn't have holding power.
- The 100 – age formula doesn't work, because not every young person has the same risk appetite. Each individual has a set of circumstances, for instance, I myself, am in a naturally high risk career, that determine how his finances should evolve. Also financial planning is about the family and the family's goals and circumstances. If my husband was a doctor, not a capital markets professional my risk taking capacity could have been very different.

After 2008, I changed my investment pattern completely. 70% of my investments go into Edelweiss Balanced Advantage Fund, a fund that allocates to both debt and equity, and generally has significantly lower downside than traditional equity funds. The balance 30% go into equity MFs, a mix of domestic and international for diversification. There is no explicit debt allocation, because debt doesn't make sense in the context of a home loan. I continue to add to these investments by doing SIPs into the same funds every month.

I have felt far more comfortable in the 2020 correction personally than I did in 2008. My BAF has fallen much less than equity markets, and the blended portfolio correction is one that I can digest. None of my goals are affected, my SIPs are continued, and most importantly, I am at so much peace, that I don't need to look at my statements and NAVs every week, because I know what I have done makes sense for me. In fact a friend in the media recently asked me how much my investments are down, and I told him I don't want to and don't need to track it every day!

I wrote this story because I do believe, that just as we embrace the unique aspects of our personality in everything we do, we should do so in finance as well. The personal comes before the word finance in personal finance – never forget that, and don't replicate your investment journey basis anyone else, even the most successful investor in the world, because you have a different set of circumstances. The golden word, that we often forget, RISK is not an obscure formula mentioned in finance books, and does not mean the same thing to everybody. For me, risk is what I can lose, so that I can still stick around to live in another day in the markets. Figure out what that number, that mix, is for you.

Investing is not that difficult a journey, but sometimes it isn't that easy either, and this is one of those times. I was taught once that a storm isn't the best time to make big strategic decisions, because your mind is a pretty cloudy place. I suggest, stay calm and resist the urge to act. Focus on surviving the storm like I survived 2008. There will be plenty of time for post-mortem.

Finally, these aren't the easiest of times, because life is far bigger than investing. Stay safe but also stay smiling, because health and happiness are the biggest wealth. And we are all there for you, at Edelweiss Mutual Fund, if you need anything.

Regards,
Radhika