"It is not the strongest species that survive, nor the most intelligent, but the ones who are most prepared for change.” – Charles Darwin

As a financial year closes and another one opens, and as the investment planning for this year begins, we often ask, “What’s going to be different this time?” While predictions have limited value, the one thing I do believe is that the coming year will be defined by volatility, at least in comparison to the year that passed. FY18, with the exception of the last few months, was an exceptionally quiet year for equity markets, the VIX, the gauge of volatility was at all-time lows, and we all settled into a sense of calm that is inevitably temporary.

In the 1990s, the US Army War College introduced an acronym called VUCA to describe the political state of the world post the Cold War. VUCA stands for Volatile, Uncertain, Complex, and Ambiguous, and over the last 25 years, has been a phrase used to describe the state of organizations today and to prepare leaders more effectively. As I look ahead at FY19, VUCA describes the investing environment we are in for.

Volatility is certainly going to be higher in equity markets, as earnings are playing catch-up with equity prices and also in bond markets, with the uncertainty around inflation. Uncertainty is also going to be a reality we grapple with this year, with number of state elections ahead of us, culminating in the Lok Sabha elections in 2019. Complexity will be further driven by global factors, particularly the rhetoric around trade wars and a potential paradigm shift towards localization, from globalization, as well as rising interest rates in the US. Ambiguity is at play, in our own MF industry, with the SEBI scheme mergers and classifications now unfolding, resulting in a number of changes in portfolios.

Now, whether it is a military environment, an organizational one, or our own investing environment, VUCA is not a problem that can be solved. It just is. Attempts to simplify complexity, or break volatility, uncertainty and ambiguity into smaller and smaller pieces in the attempt to predict outcomes or decode them will not make them go away. Perhaps, then, what we can do is be better prepared for the environment we are in, reverse it on its head, and make it our friend - a VUCA investing framework for FY19.

Step 1 is “Value”. The price of what you buy is important, because everything is valuable at the right price. This is more so in a volatile year, which will give us more opportunities to discover value, whether in the equity markets or bond markets. Now, while everyone agrees in hindsight that 2008 and 2013 offered outstanding value opportunities, the truth is very few people take them up. The mutual fund industry, thankfully, has created a wonderful tool in SIPs, to eliminate the challenges of market timing, and deliver value cost averaging in a simple and disciplined way. While investing via SIPs is timeless, in a year like FY19, it will be especially powerful.

“Understanding” is a critical Step 2. In a complex and uncertain world, understanding your investment goals, which are unique to you, defining them sharply, and sticking to them is vital. It is equally valuable to understand your own risk appetite, which is tested in volatile markets, and understand the different risk-return profiles of the debt and equity mutual fund offerings that exist. Finding the right match between your needs and the existing offerings is critical to a successful investment journey, and a good financial advisor, and there are many of them today, can help you bridge this beautifully.

Step 3 comes in “Clarity”. Clarity of what you are investing in today is extremely important in the context of scheme mergers and classifications. We at Edelweiss AMC, have emphasized the need for True to Label funds – buying what you see and seeing what you buy, to the extent of simplifying our scheme names to match the category labels defined by SEBI. Given that across the industry, schemes will change fundamental attributes, risk profiles, and past track records may become irrelevant, it is important to focus on clarity. Similarly, clarity in scheme features is important – for instance, SWPs are considered tax efficient, but be clear they help you defer tax, not avoid it entirely.

The last and final piece is “Asset Allocation” and I cannot emphasize how important it is. The right answer to most investment questions, including “is it the right time to invest in markets?”, is asset allocation. The best way to combat uncertainty and volatility is diversification, and asset allocation, by spreading risk across asset classes achieves that beautifully. The good news is that the MF industry today has a range of funds that address this problem systematically – balanced advantage funds, equity savings funds, and the new category of multi-asset funds.

A VUCA investing environment may make it appear that we are in for a rollercoaster. One of my favourite sayings by writer Maya Angelou is, “My mission in life is to not merely survive, but to thrive, and to do so, with some passion, some compassion, some humour and some style.” Chaos is reality, but to survive or to thrive, is a choice, and hopefully preparedness will help us achieve the latter.

On behalf of Edelweiss AMC, I wish you a prosperous FY19!