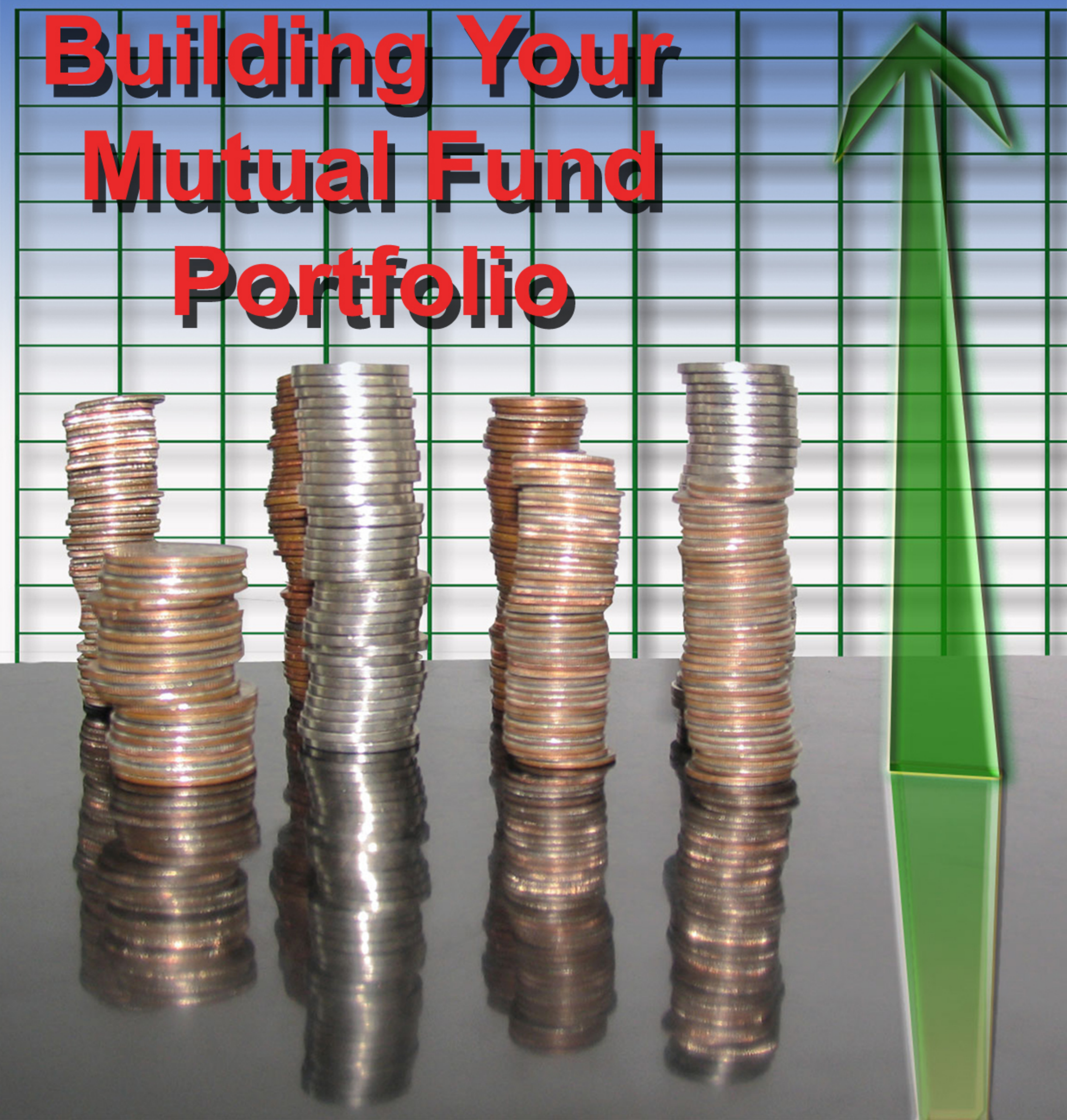
# Mutual Fund Insight

# Building Your Mutual Fund Portfolio



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# MARKET OUTLOOK FOR 2011

Indian economic outlook remain robust not just for FY11 but next year as well with the economy likely to grow at over 9% in FY12. Unlike the past couple of quarters, we expect economic growth going forward to be fuelled by pick up in public and private capex. The fundamentals of Indian economy are very strong. Relative valuations as compared with other emerging economies are on the richer side and hence we expect moderation in index returns for 2011 (in the 10 - 15 percent zone from current levels). That said, we remain in a structural bull market so any dip will enhance returns and provide an opportunity to buy equities.

**Sensex seen rising to newer heights in 2011**

If the GDP growth remains on track and corporate earnings rise evenly, the equity markets should be able to shrug off recent short term correction and continue their upward march. This also means that turbulent phases should be an opportunity for accumulating stocks. But don't rush in to buy. As always, the advice for retail investors is to buy slowly and systematically.

Most experts believe that despite the decline in the stock markets, the long-term India growth story is intact. Most of them are bullish and project a GDP growth of 8.5-9% in 2011-12. More than the GDP numbers, it is the growth in corporate earnings that is going to set market prices. Much of this confidence stems from the structural strength of the Indian economy and the soundness of the capital market.

**Expert Says:**

**"**This is a temporary pause and 2011 should be a defining year for the Indian equity markets**"** says **Vijai Mantri**, managing director of Pramerica Mutual Fund.

**"**The market will be relatively weak over the next 3-4 months. But the Nifty could rise to 6,700 by the end of this year**"** says **Ambaresh Baliga**, vice-president, Karvy Stock Broking.

**"**We are still in a structural bull market and a growth of 12-15% can be expected by the end of the year**"** says **Syed Sagheer**, senior manager, equity research, IDBI Mutual Fund.

**"**We expect the Sensex to be around 23,000 by the end of March and at 25,000 by the end of 2011. It is a good entry point for someone with a two-year view**"** says **Andrew Holland**, CEO Equities, Ambit Capital.

**"**I won't be surprised if Sensex reaches 24,000 by the end of the year**"** says **Abhay Aima**, director, HDFC Securities.

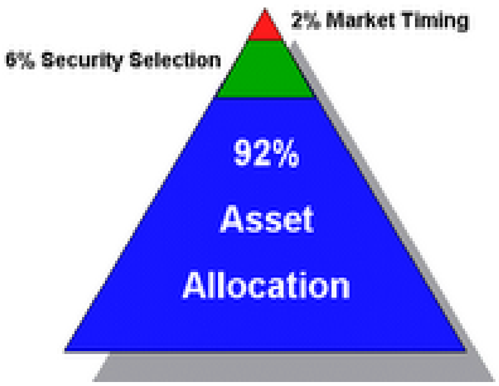
# ASSET ALLOCATION

**Asset Allocation** means diversifying your money among different types of investment categories, such as stocks, bonds and cash. The goal is to help reduce risk and enhance returns.

This strategy works great because different asset classes behave differently. Stocks, for instance, offer potential for both growth and income, while bonds typically offer stability and income. The benefits of different asset categories can be combined into a portfolio with a level of risk you find acceptable. Establishing a well-diversified portfolio may allow you to avoid the risks associated with putting all your eggs in one basket.

Asset allocation decisions involve tradeoffs among 3 important variables:

- Your time frame
- Your risk tolerance
- Your personal circumstances




About 92% of your overall wealth creation is through right asset allocation; rest is described by security selection and correct market timings. Hence, for building wealth, constructing a right asset allocation is very crucial.

Depending on your age, lifestyle and family commitments, your financial goals will vary. You need to define your investment objectives. Besides defining your objectives, you also need to consider the amount of risk you can tolerate.

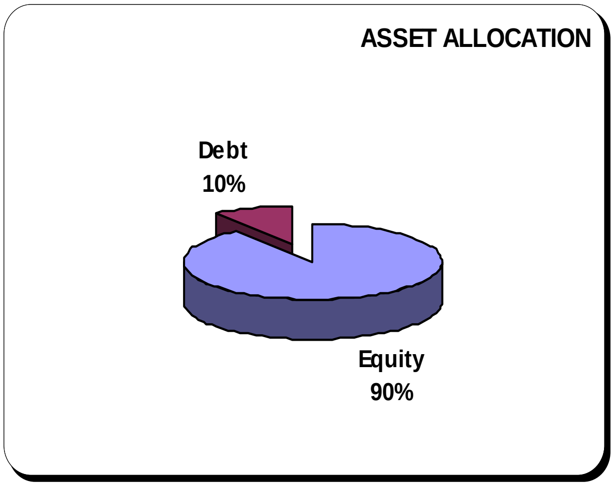
**Financial Planning** is deciding a road map for yourself and deciding in advance how you will invest your money which helps you achieve your financial goals in life comfortably. Financial planning is not about getting great returns or beating your friends portfolio performance or doing better than average; it's totally relevant to you and your financial goals. Its about having a pre-determined plan or strategy to make use of whatever money you have to achieve your financial goals in most efficient and hassle free way.

Normally, analysts will advise equity investor to invest in early age better than older age to stretch the investment horizon to get better return.

For Ex- Say you invest Rs. 5,000 per month for 30 years at 12% per annum, you would make Rs. 1.75 cr. (principal = 18 lakh). Now knock out the first 5 years. The Rs. 3 lakh saved in that time frame contributes as much as Rs. 80 lakh to your overall wealth. Your wealth is now cut down by more then 45%.

## AGGRESSIVE PORTFOLIO – For investors seeking to create wealth

**This portfolio has the capability to generate highest returns. The dominant equity tilt ensures wealth creation.**



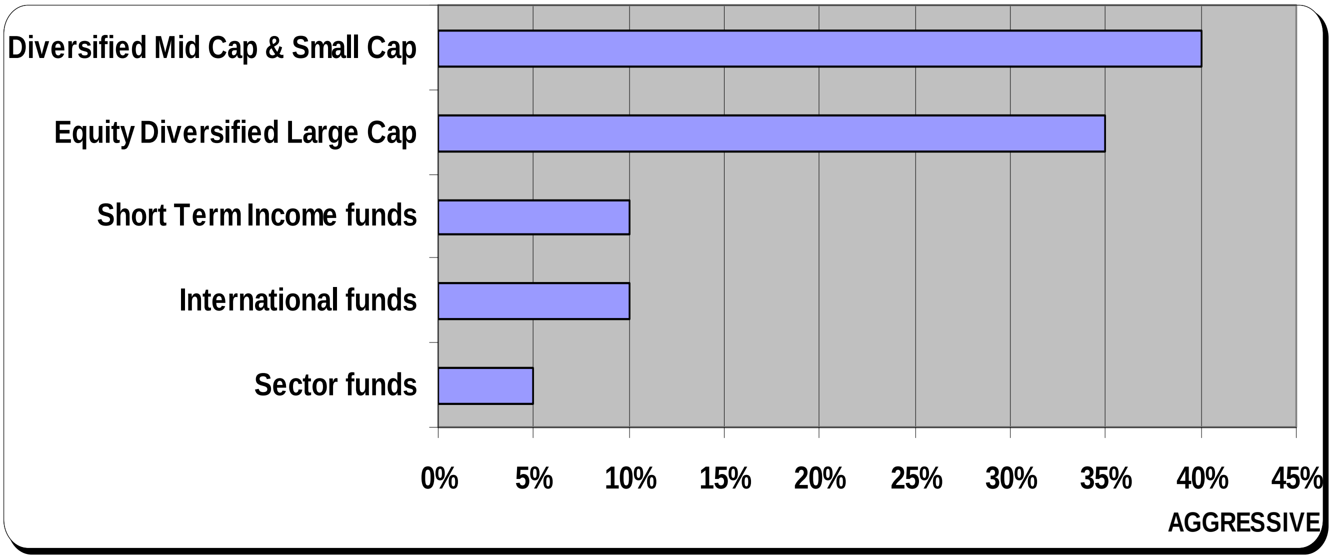

*When you are young and starting out, your aim is to build wealth. Age is on your side and your financial liabilities may be virtually zero i.e. no dependents or loans to serve. Money saved in these years of your life will contribute the most to your wealth. Aggressive portfolios consist mostly of equities. As such, with an aggressive portfolio, your main goal is to enhance capital building over a long time horizon. This portfolio is best suited for individuals who are looking at creating wealth by being invested for 8 – 10 years.*

*This Portfolio is ideally meant for you if you are:*

- *Looking at wealth creation.*
- *Young & starting out on a career.*

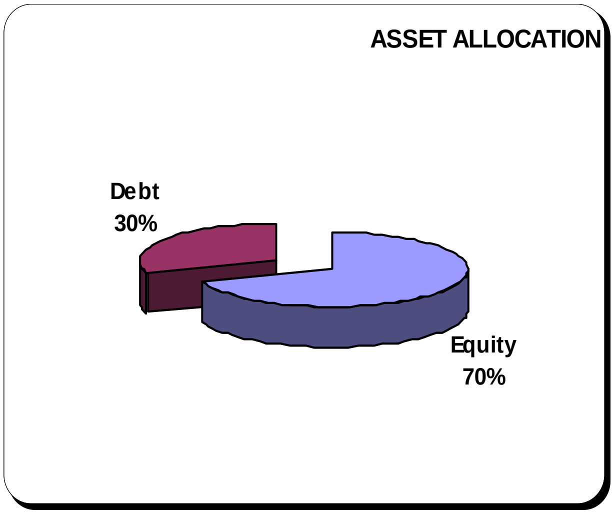
*Since this portfolio is designed for someone who has time on their side, the risk taking capability is greater.*

**Category Allocation**:



## MODERATE PORTFOLIO – For investors chasing life goals

**Draw time frames for your goals and work towards them. A strong equity allocation will get you there.**




*While you are earning pretty well, there is an increase in your financial liabilities, as compare to your earlier days. Your income has risen, but so have your responsibilities. You will still be able to save, though percentage-wise; it will not be as much as before. So while as aggressive portfolio may not be the need of the hour, you still needs growth. The trick now is to have more clarity on what you are saving for and the time frame in mind. Let your money grow to meet those goals.*

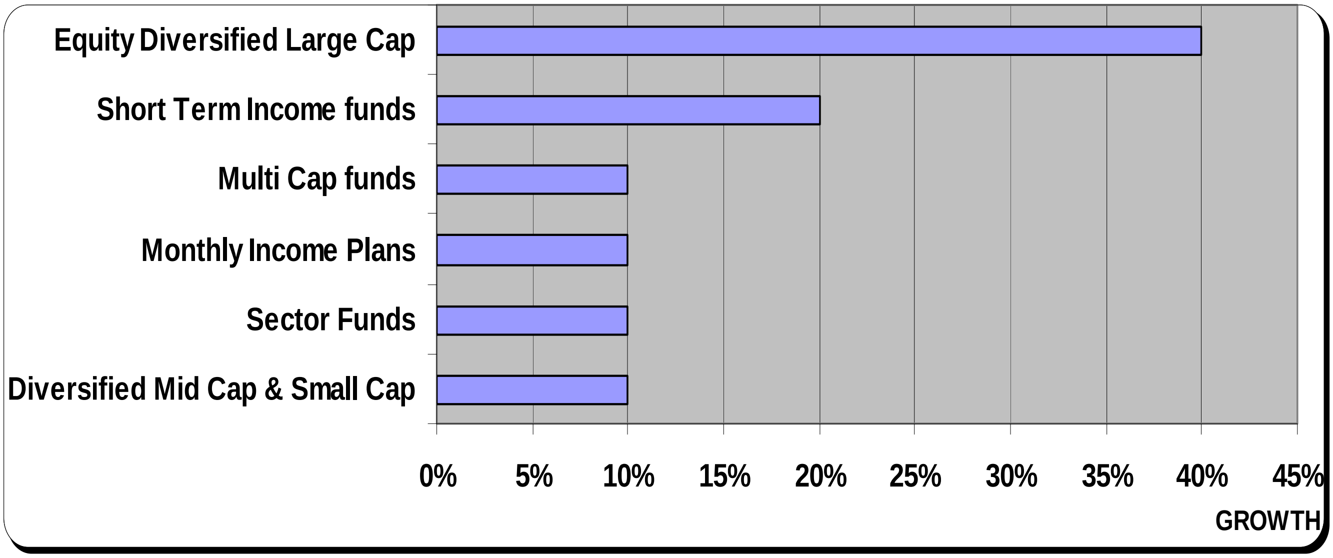
*This Portfolio is ideally meant for you if you are:*

◙ *Looking to diversify your assets since you already have an investment base in place.*

◙ *Fairly young or just married with goals to achieve.*

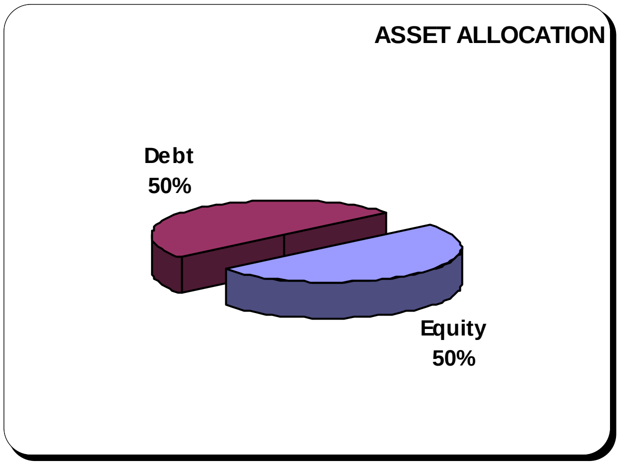
*Within the equity allocation it would be wise to ignore smaller fare in a growth oriented portfolio. Hence, the selection is from the large & mid cap and multi cap category.*

**Category Allocation:**



## BALANCED PORTFOLIO – For investors seeking steady returns

**A balanced fund is geared toward investors who are looking for a mixture of safety, income and modest capital appreciation.**



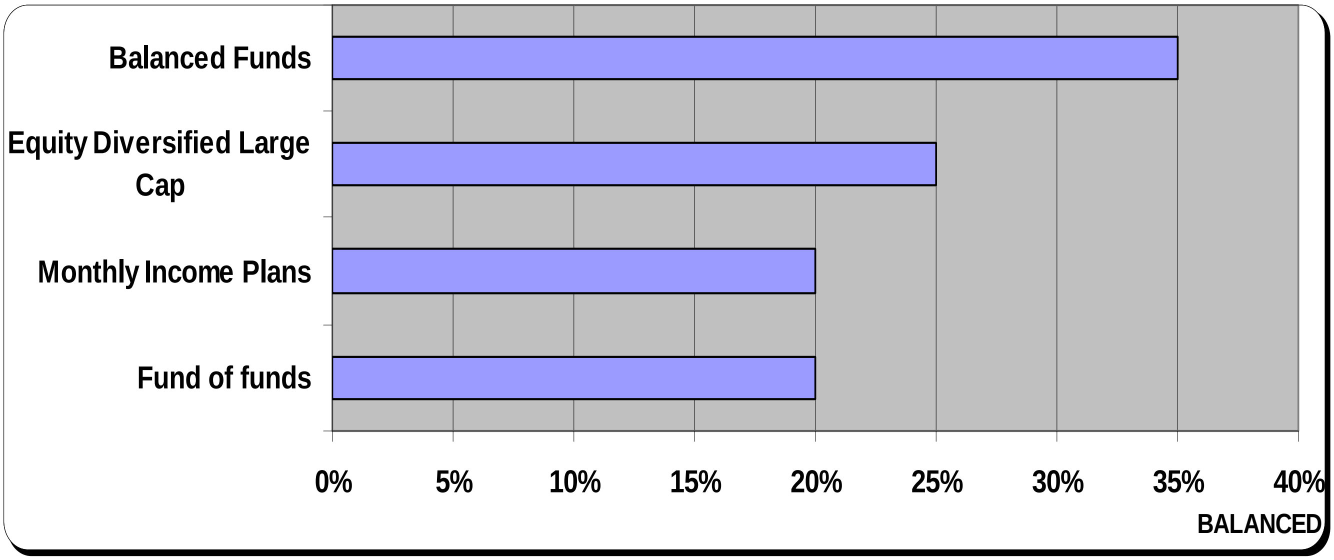

*The portfolio seeks to balance growth and stability. It recommends 25% equity funds, 20% in bonds or fixed-income funds and 55% in hybrid funds. This portfolio would seek to provide regular income with moderate protection against inflation. The equity component provides the potential for growth, whereas the component in bonds and short-term instruments helps balance out fluctuations in the stock market.*

*This Portfolio is ideally meant for you if you are:*

- *Making a career shift or opting for an early retirement package.*
- *Faced with a change in family circumstances & liabilities.*

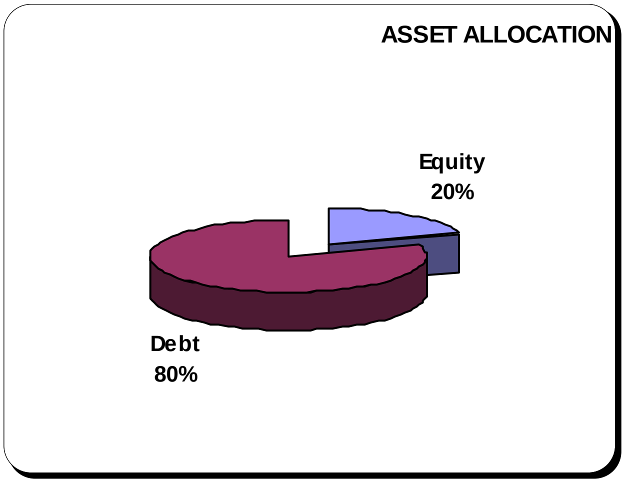
*In order to have a combination of debt and equity funds, balanced mutual funds comes out to be the best mutual fund category to invest in a mix of debt and equity. Such mix gives the benefit of both debt and equity markets through a single product.*

**Category Allocation:**



## CONSERVATIVE PORTFOLIO – For investors who wants to play safe

**Income generation and capital protection is what this portfolio is all about.**

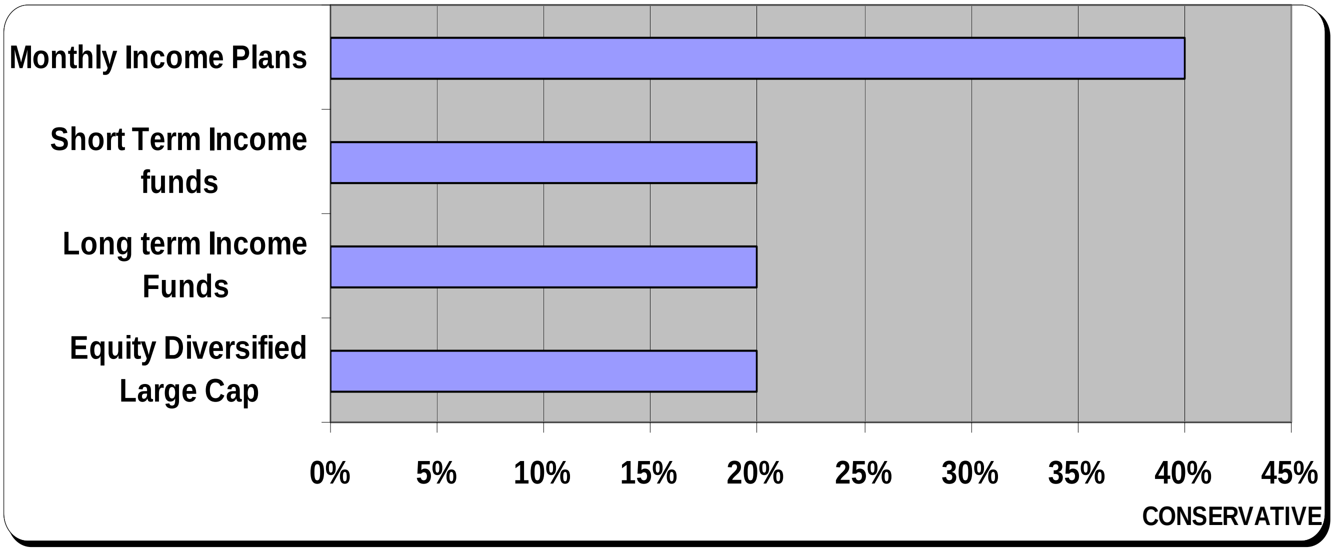



*If we had to give a generalization to this sort of a portfolio, we would offer it to someone who is at ease with their financials, but wants to stay safe. To give a more practical image, it could be that your children are now settled which means that you have less dependents. You have relatively less regular income flow translating into generating monthly income for maintaining lifestyle needs.*

*This Portfolio is ideally meant for you if you are:*
◙ *Looking to maximize your wealth with an eye on retirement.*
◙ *Looking at income generation and safe guarding of assets.*

*The conservative investment strategies, which put safety at a high priority, are most appropriate for investors who have a lower risk tolerance and shorter time horizon.*

**Category Allocation:**



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