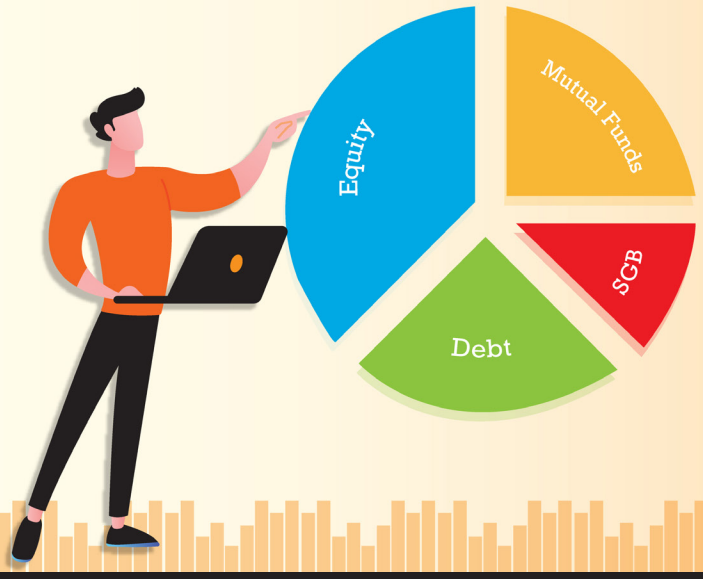
NSDL
Technology, Trust & Reach
IPFT

The Financial Kaleidoscope
Defining the different shapes of investment

December 2022



Asset Allocation

From The Editor's Desk

Dear Reader,

One proven way to spread risk comfortably throughout your portfolio, is to make sure you sufficiently diversify your investments. Diversification is the practice of spreading your investments in different asset classes so that your exposure to any one type of asset is limited. This practice is designed to help reduce the volatility of your portfolio over time.

One of the keys to successful investing is learning how to balance your comfort level with risk against your time horizon. Invest your nest egg for retirement too conservatively at a young age, and you run the risk that the growth rate of your investments won't keep pace with inflation. Conversely, if you invest too aggressively when you're older, you could leave your savings exposed to market volatility, which could erode the value of your assets at an age when you have fewer opportunities to recoup your losses.

One way to balance risk and reward in your investment portfolio is to diversify your assets. The strategy of diversification is simply about spreading your portfolio across several asset classes like equities, debt, cash, real estate, gold, etc. Even within these asset classes, investments can be further diversified based on sectors, geographies, and other factors. This helps you to mitigate the risk and volatility in your portfolio, potentially reducing the number and severity of stomach-churning ups and downs. Remember, diversification does not ensure a profit or guarantee against loss. The primary goal of diversification isn't to maximize returns. It's primary goal is to limit the impact of volatility on a portfolio.

In this issue of Kaleidoscope, we will cover the Importance of Asset Allocation while Investing in Capital Market written by Mr. Surya Bhatia who is the Managing Partner of AM UNICORN PROFESSIONAL.

Please do like, share & subscribe to our NSDL Social Media channels Twitter, LinkedIn, Instagram, Facebook & YouTube.

Regards,
NSDL – Your Depository

Importance of Asset Allocation while Investing in Capital Market

NEVER PUT ALL YOUR EGGS IN ONE BASKET

Our elders always said: "Never put all your eggs in one basket". This adage holds most true perhaps for financial planning. What this really implies is that we need to diversify our investments to make sure we get the best out of our portfolio. At the same time, it helps us reduce our risk, if in the event of one particular asset class suffering a serious loss.

THINK BEYOND REAL ESTATE AND GOLD

With a plethora of reforms in Indian Capital Market, investors can choose from various asset classes to invest and diversify their portfolio beyond the traditional avenues of real estate and gold. A well-regulated capital market means we can invest in financial products like equity, mutual funds, government securities etc. Mutual funds have a basket of products that allow us to buy different asset classes at the click of a button and with small amounts.

HOW MUCH TO INVEST IN ANY ASSET CLASS?

The key to a good investment plan is asset allocation. In other words, how much do we invest in different asset classes? Asset allocation is a word which is widely used when it comes to financial planning. And why not, it does form an integral part of creating portfolios and plays a critical role in creating wealth over the long term.

So, what does asset allocation really mean? It is a balancing act of investing in various asset classes to manage risk and returns. It typically reflects and takes into consideration your goals, risk tolerance and your investment period. As we all know, reaction to market movements requires expertise and lots of skill sets. Timing the markets is not possible and therefore asset allocation plays an important role in investments.

ASSET ALLOCATION KEY TO YOUR RETURNS ON INVESTMENTS

In fact, it is said that 90 per cent of the returns you make are as a result of sound asset allocation and not picking the right stocks or funds or timing the markets.

HOW TO DO ASSET ALLOCATION?

What are the various ways to do asset allocation? There are many options available – an investor can decide which one suits him or her better or is better suited to their needs.

- **Age**
  A simple way to do asset allocation - older you are, lower the equity. Reduce your age from 100 and that could be your equity allocation. This is a simple thumb rule which you can follow. As comes from the logic of reducing your risk as you turn old.

- **Risk profile**
  Understand your risk tolerance level to determine asset allocation. Do a risk profile test which will enable you to determine risk appetite as well as risk capacity. A better way would be to take up a questionnaire. This will enable you to gauge the risk parameters and basis that decide the allocation. To take an example to understand your risk tolerance -

Q. You have made an investment in equity with a long-term view. But within 6 months of investment the portfolio value decreases by 20%. How will you react and behave?

a) You will redeem investments and invest in safer avenues.
b) You will be concerned but remain status quo - no action.
c) You will add to the equity portfolio as the markets have gone down as you know volatility is inherent to the equity markets subject to what you do will decide your risk tolerance level. In case an investor who will consider redeeming the investments will make him a conservative investor where equity/ risk exposure should be limited. And likewise, if any investor picks option (c) of adding to equity portfolio will classify him as an aggressive investor.

Questions like this and more will enable you to plan better and make you aware of your risk appetite ensuring that you invest appropriately.

- **Need based**
  How much is your corpus? What are the

requirements of funds - short term or long term?

The long-term asset allocation can be in equity but again subject to the risk profile test for e.g., even if you have long term goals but have low risk appetite (refer the above example) equity allocation is to be limited.

In addition to the same, an investor can adopt from various strategies to ensure the portfolio is well protected within the limitations that an investor carries.

- **Strategic**
  One way to do it is to have a combination of various assets based on the respective expected return on investments (ROI) - an investor can have a targeted return and then based on expectations can have the asset mix. However, a word of caution, in the quest to chase high returns, do not alter your asset mix. Hence, have realistic and reasonable expectations.

- **Constant**
  Having a fixed allocation to a portfolio where the investor decides the % to various asset classes and then rebalancing it to bring it back to its original numbers if the asset class is +- 5% of its original value.

- **Tactical**
  Strategic allocation carries its limitations- it can be rigid in nature in the long term. Tactical allows you to alter and take a tactical deviation from the proposed mix to capitalise on investment opportunities. But this does require expertise and hence is to be considered where the required knowledge is there.

- **Dynamic**
  As the name says it is dynamic by nature and therefore adjusts the asset mix as they increase or decrease in value and hence a lot is dependent on the portfolio manager's discretion. At the same time, fixed parameters can reduce the biases of the portfolio manager e.g., allocation to be adjusted based on PE ratio or PB ratio.

- **Insured**
  This strategy is to be used by low- risk investors - here the base portfolio is considered as constant i.e., conservative, and over and above the base portfolio there is active fund management to deliver that extra alpha – higher return to give a push to the overall portfolio. But by no means the value is to go down the base portfolio.

- **Integrated**
  This strategy tries to take the best of all - by becoming a combination of all the above. It factors investors risk tolerance as well as the overall economic expectations.

The advantage of following an asset allocation model is the balancing act it creates- investors typically do not go overboard while allocating risk assets to their portfolio and remain true to their risk appetite & capacity. It also helps in keeping the investors away from the noises in the markets as it balances the risk and reward for each investor to their specifications.

REBALANCING THE PORTFOLIO, THE KEY TO MANAGING RISK AND RETURNS

Another big advantage of using asset allocation is, it brings the art of rebalancing the portfolio. For e.g. If the equity debt allocation is pegged at 50:50 and due to the market movements, the ratio becomes 40: 60 where 40 is equity, then it allows you to increase the equity allocation to achieve the original asset allocation to 50:50 thereby implying that the risk assets are increased when the markets are down. And likewise, the reverse also becomes true i.e., if ratio becomes 65 :35 where 65 is equity, it means it is time to trim the risk allocation and bring it down to 50% resulting in booking profits when markets have gone up and again bringing at par the 50:50 equity and debt ratio.

This act of rebalancing will ensure that the investor will remain true to their allocation and hold their risk preference without bringing biases in play. While, rebalancing the portfolio can be done anytime, typically it can be done every once in six months or once a year but must be flexible as in case of any major movements in markets it can be done accordingly. It is also good to keep an eye on tax efficiencies while they should not be the driving force.

BEATING INFLATION THROUGH ASSET ALLOCATION

While it is strongly recommended to follow the asset allocation model to iron out the market deficiencies, it is good to keep a watch on the expected return from the portfolio as that is a factor of your asset allocation.

A conservative to moderate risk portfolio will carry the risk of inflation in the long run. Investors need to be mindful of this aspect and should try to adjust the portfolio in accordance as the minimum target should be matching if not outperforming the inflation. This may not be always doable, as there will be many times when inflation will outperform all. The year 2022 is a classic example of it where both debt and equity have underperformed inflation but if in the long term you are able to outperform inflation the job is well done. And it's true, higher the risk, better the returns you can expect in the long run. But it should not be only about chasing returns- allocation to risk assets should not be done to primarily achieve higher returns as then it will take away the purpose of asset allocation.It is also interesting to know that asset allocation brings a unique advantage of combining different assets which are not related to each other. Asset allocation ensures the assets are spread around equity which will be both domestic as well as global equities, debt, commodities like gold, silver and can also include REIT (real estate investment trusts).

NO ASSET CLASS PERFORMS WELL AT ALL TIMES

This will enable you to have assets that may perform at different intervals depending on the domestic as well as global environment thereby enabling your portfolio to be truly diversified and help reduce volatility. Historically, there is low and even negative correlation across various asset classes.

Let's take actual examples basis the last decade 2011-2020. In this block of 10 years domestic equities were top of the charts in only 4 years and to be more specific small caps were the leaders for 3 years 2014, 2017 & 2020 & mid-caps for one year in 2012. Gold got to be the best performing asset class in 2 out of 10 years i.e., 2011 & 2018. Similarly global equities were top of the ladder also for 2 years in 2013 & 2019. And interestingly debt which is considered as a poor cousin of equities as far as returns are concerned was also the best performing asset for 2 years in 2015 & 2016 during the said block of 10 years. And what is even more interesting is the fact that Real estate never got the top position in the said block of 10 years. At best it was the 2nd best performing asset class and that too in the year 2011. And since the year 2015 onwards the best performance of real estate has been at no. 5 in the year 2016. The year 2020 actually saw the real estate at the bottom of the ladder. And if we talk about the performance lows. In case of equities small caps were the worst performers in 4 out of 10 years thereby implying their degree of risk and volatility. Gold was also ranked the lowest among asset classes for 3 years, debt taking 2 years and real estate taking 1 year to sum up the 10 years.

This clearly depicts that there a lack of correlation and performance across asset classes and it is not possible to predict any one asset class which will be having a clear outperformance over others in the years to come. And even if your call of picking one asset class over others goes well there is no assurance it will be repeated. And hence the importance of diversification and asset allocation.

THE NEED FOR A GOOD FINANCIAL ADVISOR

One of the biggest reasons why you need a good financial advisor is to constantly help you with your asset allocation. As you can see, it is a process that is critical and yet one that needs constant evaluation and action. We may as individuals find it difficult to do this on our own and also to ensure that personal biases do not come in.

The mutual fund industry has tried to solve this problem by creating hybrid products like multi assets, balanced advantage funds, equity savings etc. that have a built-in asset allocation in equity and debt. But again, this is for all investors and does not factor in the specific risk profile of a particular individual.

This article is written by Mr. Surya Bhatia, CFP, Managing Partner, AM UNICORN PROFESSIONAL

Spend a little time in nomination to save a lot of effort for your loved ones

When Milind Johri was barely 25 years old, he had opened a demat account and trading account. At that time, he had not mentioned any nominee for his demat account holdings.

A few years later, he married Deepa, an architect by profession, who took up only small assignments whenever time permitted, since she was quite engrossed in raising their children and managing their home.

Being the primary breadwinner, Milind managed the finances for the family and the couple found little or no time to discuss money matters. Sometimes, however, he would proudly tell her how his portfolio of stocks and mutual funds was already large enough to put their children through college.

One unfortunate day, Milind met with a fatal accident. After the initial mourning period, Deepa set about evaluating their finances, so she could proceed to give her children the life that she and Milind had planned for them.

When she contacted Milind's stockbroker, she was amazed to hear how much he had amassed in stock and mutual fund holdings in his demat account. However, she was dismayed to know that since the account did not have a nominee, she could not access the demat account easily.

The broker explained to her that nomination is a process by which Milind, or any holder of securities in a demat account, communicates their preference regarding who should receive their securities in the unfortunate case of their demise. He had the opportunity to declare a nomination at the time of opening of his demat account or any time later. But unfortunately, he had not.

As a demat account holder, all he had to do was mentioned the information related to nominee(s) in the account opening form at the time of account opening. In fact, he could have nominated up to three different individuals with proportion (%) in which securities in his demat account could be transmitted after him.

Perhaps he had overlooked the opportunity to nominate someone at the time of opening the account, as he was in a hurry at that time. However, he could have declared his nomination any time after that, simply by filling in a nomination form and submitting it to his depository participant (DP) or through digital mode where he could nominate online at https://eservices.nsdl.com/instademat-kyc-nomination/#/login.

Although he was unmarried at the time of opening his account, even if he had nominated his parents at that time, he had the option to change the nomination anytime, to his wife or anyone else. He would just have to fill up the nomination form once again, stating his new nominee(s) and submit it to his DP.

Deepa was finally able to access her husband's stock holdings, but it took a considerable amount of time and effort, since he had not nominated her.

The lesson is that although nomination is not mandatory for demat account, it is highly recommended so that the financial assets of the account holder can be transferred to the nominee's demat account quickly and seamlessly, with minimum paperwork.

SEBI has emphasised the importance of having a nomination to demat accounts by making it mandatory for all existing demat account holders to state their nomination or opt out of nomination, i.e., declare that they were not nominating anyone, **on or before March 31, 2023.** NSDL has also been urging demat holders to take necessary action, to either nominate or opt out of nomination by that timeline, to prevent their demat accounts from being frozen. NSDL has enabled nomination through digital mode where clients can nominate online including e-Sign the nomination declaration form at https://eservices.nsdl.com/instademat-kyc-nomination/#/login.

Post-read

Other facts about nomination in demat account that may be of interest :

- Nomination is permitted for accounts with joint holders. In case of the death of either of the joint holders, the securities will be transmitted to the surviving holder. However, if both joint holders die, the securities will be transmitted to the nominee(s), if there is a nomination; if not, the legal heir will have to follow a process to access the holdings.
- If an account holder does not wish to mention any nominee at the time of account opening, he or she can simply opt out of nomination.
- Nomination can be made only by individuals holding demat accounts, singly or jointly, and only individuals can be nominees. Non-individual holders like societies, trusts, body corporates, partnership firms and Hindu Undivided Family cannot nominate or be nominees.
- NRIs can nominate directly. However, the power of attorney holder cannot nominate on behalf of an NRI.
- Minors cannot nominate either directly or through their guardians. However, minor can be a nominee in the demat account.
- In case of death of account holder, all the securities lying in the demat account, are liable to be transmitted to nominee(s) in the pre-registered proportion.

Key Information for Investors

1. **SEBI Master Circular on the redressal of investor grievances through the SEBI Complaints Redress System (SCORES) platform dated November 7, 2022.**

   Investors can access the master circular with the below link.

   SEBI | Master Circular on the redressal of investor grievances through the SEBI Complaints Redress System (SCORES) platform

✓ We encourage investors to Read '**Investor Charter'at** **https://nsdl.co.in/publications/investor_charter.php**

✓ **Lodge your complaint with SEBI at www.scores.gov.in/ or SEBI Mobile App - SCORES**

a. SEBI Toll free helpline - 18002667575 / 1800227575
b. NSDL Toll free helpline - 18001020990 / 1800224430
c. Online submission of Grievances at https://nsdl.co.in/nsdlnews/investors.php
d. NSDL email for grievance - relations@nsdl.co.in
e. NSDL email for other information - info@nsdl.co.in

2. **Review of timelines for listing of securities issued on a private placement basis**

   To bring about efficacy in the listing process and to expedite the availability of non-convertible securities, securitised debt instruments, security receipts and municipal debt securities for trading by the investors, the timeline for listing is being reduced from T+4 to T+3 days (wherein T refers to issue closure date).

   Investors can access the circular with below links.

   - 44_Circular_for_SEBI_Circular_on_Review_of_timelines_for_listing_of_securities_issued_on_a_private_placement_basis.pdf (nsdl.co.in)
   - 44_Circular-SEBI_Circular_dated_November_30_2022.pdf (nsdl.co.in)

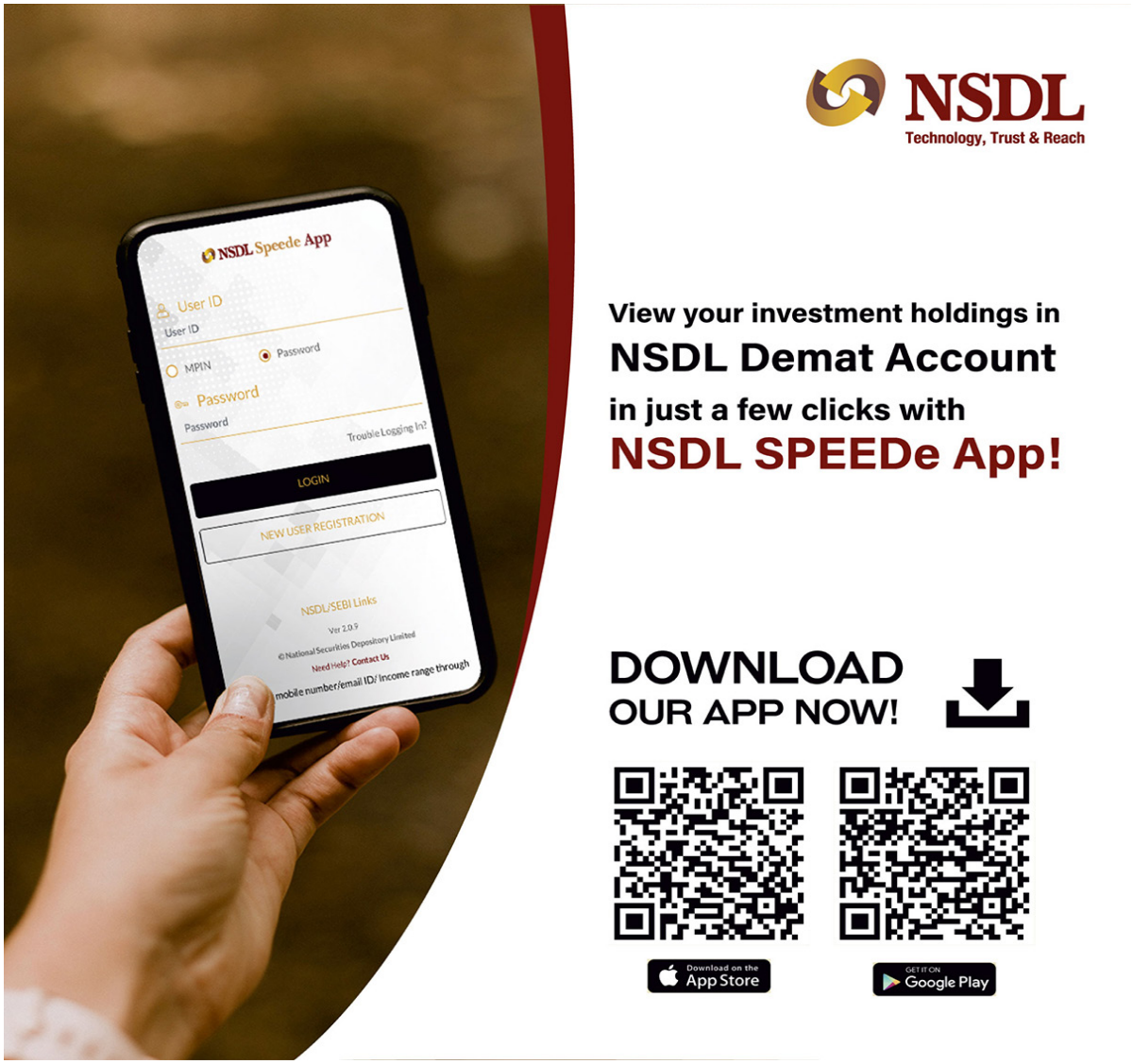
3. **Extension of timelines for implementation of SEBI circular on "Execution of 'Demat Debit and Pledge Instruction' (DDPI).**

   The provisions of the SEBI circular on "Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / repledging of securities – Clarification"; shall come into effect on or before January 20, 2023.

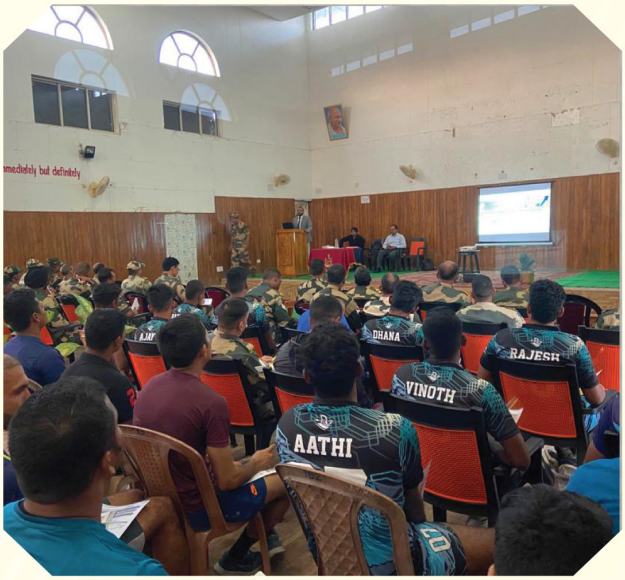
   For more information, investors can visit the below link : 2022-165-Policy-Implementation_of_DDPI_and Extension_of_timeline_for_implementation_of_Pay-in_Validation.pdf (nsdl.co.in)

Join our Investor Awareness Programs

NSDL conducts Investor Awareness Programs (IAPs) to help investors to be aware of different aspects of investing. These programs are conducted on different topics of interest to investors and in different languages. The schedule of the forthcoming programs/webinars is published online at https://nsdl.co.in/ Investor-Awareness-Programmes.php. We invite you to participate in these programs. We shall be happy to conduct an awareness program for your employees, staff, students, or members. Please write to us at info@nsdl.co.in if you want any such program to be conducted.



Investor Awareness Program for Border Security Force (BSF) Jawans at Cooch Behar, West Bengal



NSDL Head Office

Trade World, A wing, 4th Floor, Kamala Mills Compound, Lower Parel, Mumbai - 400013
1800 1020 990 / 1800 224 430

Branch Offices

● Ahmedabad ● Bengaluru ● Chennai ● Hyderabad ● Jaipur ● Kochi ● Kolkata ● Lucknow ● New Delhi

Published by Mr. Prashant Vagal (Editor) on behalf of National Securities Depository Limited Investor Education Fund Trust.