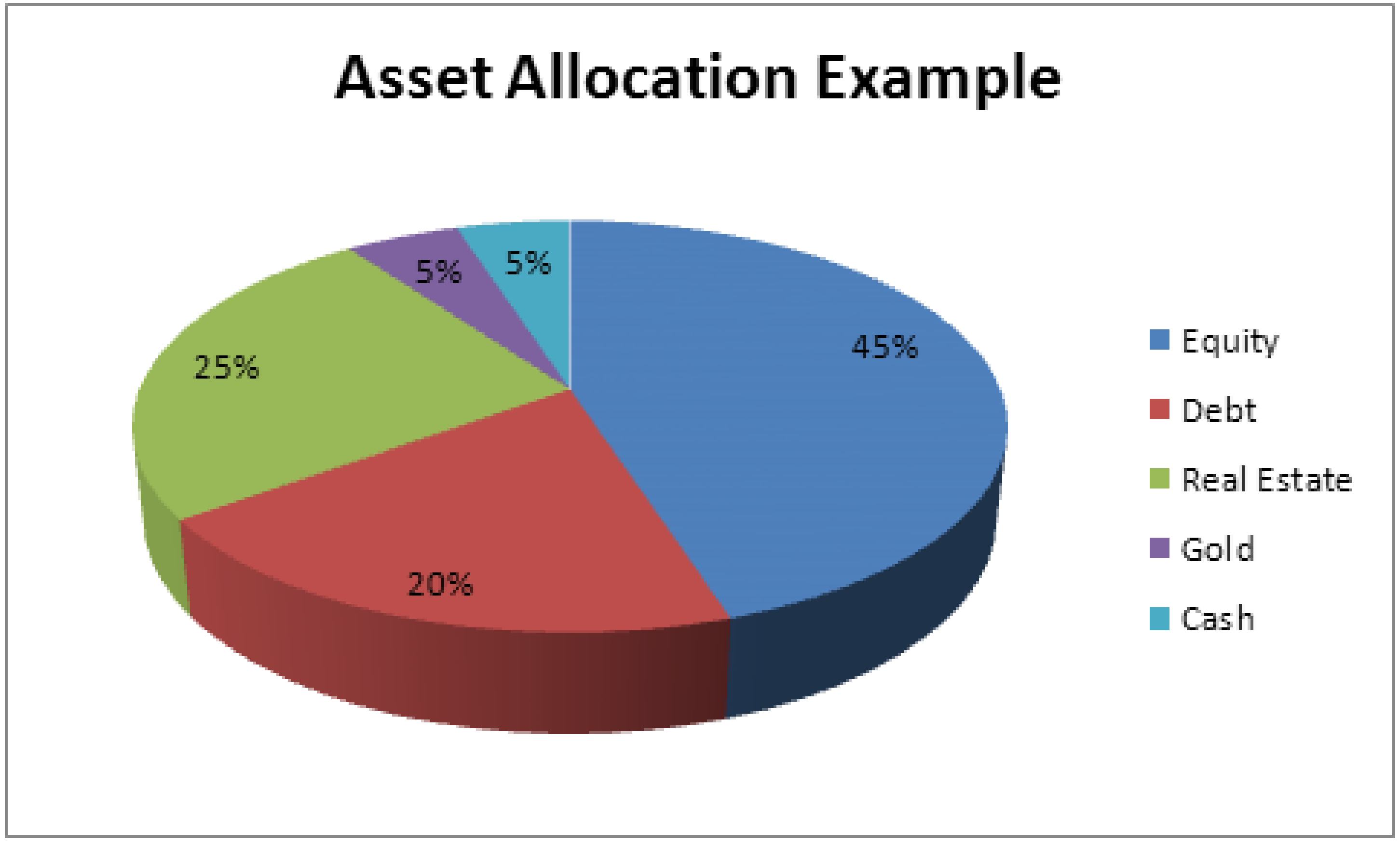
ASSET ALLOCATION

What is an asset allocation ?

- Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon.

- The three main asset classes - equities, fixed-income, and cash and equivalents - have different levels of risk and return, so each will behave differently over time.

Asset allocation



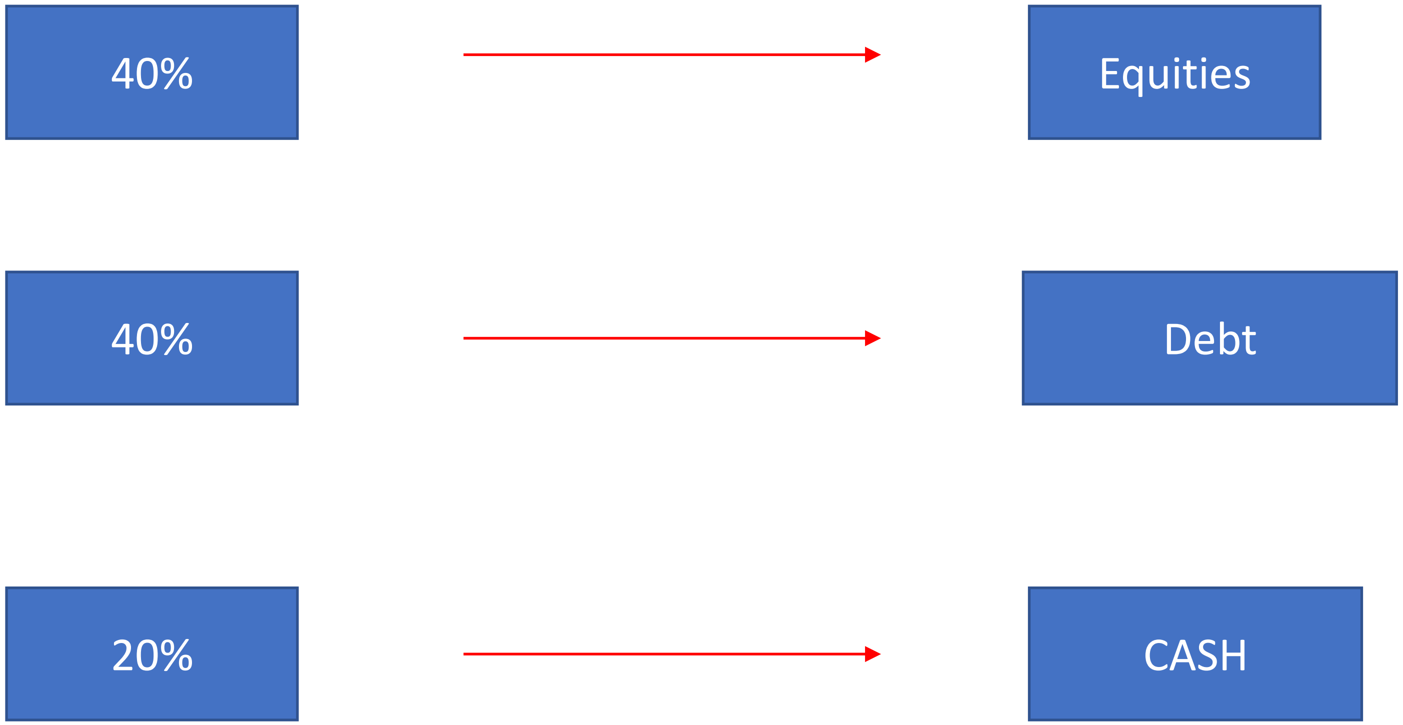
The process involves two main decisions:

1. Which asset classes will be included or excluded from an investor’s portfolio.
2. How the portfolio will be weighted among the asset classes chosen for the portfolio.

Advantages of Asset Allocation

- Helps in balancing the risk
- Investment according to risk appetite of an Investor
- Asset classes performs differently at different times.

Strategic Asset Allocation



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ASSET	RATIO	ALLOCATION	RATE	AFTER 1 YR	REVISED %	REBALANCING	ADJUSTMENT
EQUITY	40%	200000	12%	224000	41.0%	218400	5600
DEBT	40%	200000	8%	216000	39.6%	218400	2400
CASH	20%	100000	6%	106000	19.4%	109200	3200
				546000			

Strategic Asset Allocation

- The portfolio is rebalanced when the original allocations deviate significantly from the initial settings due to differing returns.

- Strategic asset allocation is compatible with a buy-and-hold strategy that's why follow less trading approach

- It's a Passive asset allocation strategy

What about Shot term Opportunities in Market

- Investing in an IPO
- When Interest Rate cut is expected.
- When a particular sector of Equity Market looks promising to invest because of several growth prospects.
- When a particular Asset class investments looks good to invest for better returns

Tactical Asset Allocation identifies Opportunities for better Returns

Tactical Asset Allocation

- **Tactical asset allocation** is a moderately active strategy usually implemented to benefit from short-term market and economic events.

- These tactical allocation changes or shifts are implemented with the goal of generating superior risk-adjusted returns compared to a strategic asset allocation approach.

- Please note that this is a short-term strategy and the earlier pre-determined asset mix is restored when the short-term profits are achieved.

Core/Satellite Allocation

1. In this approach, investors differentiate between two segments in their portfolio, core and satellite. It is a combination of strategic and tactical asset allocation.

2. Core portfolio provides stability and long term appreciation. The satellite portfolio offers an extra risk-adjusted return that pushes up overall returns.

3. Core portfolio is geared to meet the long-term goals. It forms about 60-70% of the portfolio. Index, diversified equity or large cap equity and short-term debt funds make up this portfolio.

Core/Satellite Allocation

- 4. The satellite portfolio forms a smaller part of the portfolio and is tactically managed to benefit from economic and market conditions. Long-term gilt funds, sector specific funds,REIT are some examples.

  5. Transaction cost is low as core portfolio is not churned frequently and so is volatility of the overall portfolio. The liquidity needs can be met through the satellite portfolio.

Dynamic Asset Allocation

- Dynamic asset allocation is used primarily by institutional investors This type of allocation is used primarily to hedge a portfolio against big declines in value

- To do this, the investment manager will shift between riskless and risky assets, making the changes in response to what is happening in the marketplace. As portfolio values change

Dynamic Asset Allocation

- **Dynamic Asset Allocation** is again an active asset allocation strategy in which you can continuously change and adjust the asset mix depending on the market and economic conditions.
- It moves opposite to constant-weighting asset allocation. For example, in the dynamic strategy, you would sell when the market begins to decline to stop your losses and buy when it starts to rally in anticipation of further gains

Difference between Dynamic & Tactical

Dynamic	Tactical
Macro	Micro
Not necessary to restored the previous asset mix	It is restored to the previous asset Mix
Ratio	

THANK YOU