STRATEGIC FINANCIAL PLANNING

Investment Strategies for Investors

- Choose an investment strategy to maximize returns on investments
- Begin planning & investing early and regularly; Use SIP
- Have realistic and achievable expectation of returns on Investments
- Utilize the compounding benefits by choosing Growth option of a Fund
- Invest for long term
  - ‘Buy and Hold strategy’
    - can be adopted for good mutual fund schemes but not for individual stocks
  - Rupee Cost Averaging strategy for investment
  - Value Averaging strategy for investment

Rupee Cost Averaging strategy of Investment

- Rupee Cost Averaging (RCA) involves the following
  - A fixed amount is invested at regular intervals
  - Over a period, average purchase price per unit is lower than average NAV
  - Investor use SIP to implement the RCA strategy
  - This strategy does not tell you when to sell and switch
  - More units are bought when NAV is low
  - Fewer units are bought when NAV is high

Value Averaging Strategy of Investment

- Value Averaging Strategy involves the following
  - A fixed amount is targeted as a desired value of the portfolio at regular intervals
  - If market values rise
    - units are sold to restore target value
  - If market values decline
    - More investments are made to maintain target value
  - Over a period
    - Average Purchase Price per unit is lower than
    - if one tries to guess the highs and lows of market

Value Averaging Strategy

- Value Averaging Strategy is superior to RCA
- It enables you to book profits and rebalance portfolios
- Investors can use MM Funds and Equity Funds to implement Value Averaging Strategy
- Investors can use SWP to implement Value Averaging Strategy

Fundamentals of Asset Allocation

- Asset Allocation is Basic tool to translate financial plans into action
- Asset Allocation is determining the percentages of investments to be held in Equities, Bonds and Money Market instruments
- Over 95% of returns on Managed Portfolio come from the right level of Asset Allocation amongst stock, bonds & cash
- Asset Allocation differs for Investors depending upon
  - their personal situation
  - financial goals and
  - risk appetite

Model Portfolio for Investors Benjamin Graham's 50/50 Balance Strategy for Asset Allocation

- 50/50 split between Equities and Bonds –
  - A common sense approach
  - Conservative investment approach
  - When value of equity goes up, balance restored by liquidating part of equity portfolio or vice versa
  - Good to get half the returns of a rising market and avoid the full losses of a falling market

Model Portfolio for Investors Suggested By Bogle

Bogle suggests the following combinations:

1. A Basic Managed Portfolio
   - 50% in Diversified Equity & ‘Value’ Funds
   - 25% in a Govt.Securities Funds
   - 25% in High Grade Corporate Bond Funds
2. A Basic Indexed Portfolio
   - 50% in Total Stock Market Index Fund
   - 50% in Total Bond Market Portfolio
3. A Simple Managed Portfolio
   - 85% in a Balanced 60/40 Fund
   - 15% in Medium Term Bond Fund

Model Portfolio for Investors Suggested By Bogle

4. A Complex Managed Portfolio
   - 20% in Diversified Equity Fund
   - 20% in Aggressive Growth Funds
   - 10% in Specialty Funds
   - 30% in Long Term Bond Funds
   - 20% in Short Term Bond Funds
5. A Readymade Portfolio
   - Single Index Fund with 60/40 Equity / Bond Holdings

Bogle’s Rule of Thumb for Asset Allocation

- Debt Portion of an investor’s portfolio to be equal to his age
- 30 year old investor – 70/30 (Equity /Debt Allocation)

Bogle's Strategic Asset Allocation Strategy For Investors

- Bogle recommends the following factors to be considered in strategic asset allocation strategy for investors:
  - Age
  - Financial Circumstances
  - Objectives

	Equity / Debt
For Younger Investors in Accumulation Phase	80/20
For Older Investors in Accumulation Phase	70/30
For Younger Investors in Distribution Phase	60/40
For Older Investors in Distribution Phase	50/50

Fixed v/s Flexible Asset Allocation Strategy

- Asset Allocation percentages can be on Fixed or Flexible Basis
- Fixed Ratio of Asset Allocation:
  - Balance maintained by liquidating a part of the position in the Asset class with higher return and
  - reinvesting in the other assets with lower returns
- Flexible Ratio of Asset Allocation :
  - Not doing any rebalancing and
  - letting the profits run
- Fixed ratio approach works better in bull markets

Tactical Asset Allocation Strategy

- Change in Asset Allocation percentages based on Fund Manager’s views on the future movements in asset prices
- May invest more in shares of small companies than large companies
- May change the equity debt mix where they expect greater returns