SELECTING THE RIGHT FUND

Jacobs' Four Steps for a Client's Model Portfolio

1. Work with investor to develop long term goals
2. Determine the Asset Allocation of the Investment Portfolio
3. Determine the Sector Distribution
4. Select the specific Fund Manager and their schemes

Model Portfolios for Client's Recommended by Jacobs

- **For Young Single Professionals –**
  - 50% in Aggressive Equity Funds
  - 25% in High Yield Bond Funds and Growth & Income Funds
  - 25% in Conservative Money Market Funds
- **For Young Couples with 2 incomes & 2 children**
  - 10% in Money Market Funds
  - 30% in Aggressive Equity Funds
  - 25% in High Yield Bond Funds and Long Term Growth Funds
  - 35% in Municipal Bond Funds

Model Portfolios for Client's Recommended by Jacobs

- **For Older Couples with Single Income**
  - 30% in Short Term Municipal Funds
  - 35% in Long Term Municipal Funds
  - 25% in Moderately Aggressive Equity Funds
  - 10% in Emerging Growth Equity Funds
- **For Retired Couples**
  - 35% in Conservative Equity Funds for Capital Preservation.
  - 25% in Moderately Aggressive Equity for modest Capital Growth
  - 40% in Money Market Funds

Jacob's Model Portfolio based on Market phases

- **Investors in Accumulation Phase:**

  - These are young investors up to early thirties, who can take greater risk on investments

Asset	Allocation %
Diversified Equity, Sector & Balanced Funds	65 to 80
Income & Gilt Funds	15 to 30
Liquid Funds & Bank Deposits	05 to 10

Jacob's Model Portfolio for Investors

- **Investors in Transition Phase :**
  - Mid-forties – fifties :- When investor's children are approaching the age of higher education or marriage
  - To prepare for their financial commitments, start converting some of your equity investment into Income and Cash Funds

Asset	Allocation %
Diversified Equity, Sector & Balanced Funds	40 to 50
Income & Gilt Funds	40 to 50
Liquid Funds & Bank Deposits	05 to 10

Jacob's Model Portfolio for Investors

- **Investors in Distribution or Reaping Phase :**

  - Investors who are about retirement age, should tend to look at more conservative investments

Asset	Allocation %
Diversified Equity, Sector & Balanced Funds	15 to 30
Income & Gilt Funds	45 to 60
Cash Funds	10 to 30

Equity Fund Selection for a Client

- **Identify financial goals**
  - Before opting for investments its important to identify financial goals or investment objectives
  - The objectives can be tax planning, regular income, high returns, long-term planning, etc.
    - For example equity funds are more tax-efficient compared with debt funds, closed-ended equity funds aim at long-term capital appreciation. Also for each goal having a clear idea about the time frame to build the corpus is very important

Equity Fund Selection for a Client

- **Selecting Equity Funds**
  - Classify the available Equity Schemes into Growth, Value, Equity Income, Broad based Specialty etc
  - Either Select main stream Growth or Value Fund providing broad diversification
  - Select differentiated Growth or Value Fund or Specialty Fund where risk and return vary from market
  - Evaluate past return records of available funds
  - This is also called as Bogle approach

Debt Fund Selection for a Client

Selecting Debt Funds

- Narrow down the choice by considering price risk and income requirements
- Know your investment objectives
  - For young investor – Long Term Bond Funds
  - For Retired Investors – Monthly Income Funds

General Fund Selection criteria for a Client

- **Risk tolerance**
  - Fund should be chosen according to the investor's risk tolerance
  - A young investor can have an equity-oriented portfolio as at the young age one can afford to take a risk in anticipation of higher returns.
  - Those approaching old age and planning for retirement should have low equity exposure. Low-risk investors should go for debt funds that invest in government securities or high rated debt papers.
  - Moderate-risk investors should consider index funds, balanced funds and asset allocation funds
- **Asset allocation:** Funds should be selected according to their investment objective A decision on asset allocation is very crucial and broad. One might want to include other investment options, such as real-estate and bank deposits
- **Fund performance** Though the past performance of a fund does not define its future performance, it is important to know how it has performed with respect to its benchmark. One should see the consistency in performance over longer tenures

Fund Selection criteria for a Client

- **Fund management** A fund manager's track record is also a factor. The stock picking and market timing abilities of the manager can be judged by comparing the fund performance with its benchmark. Also the longer a manager has been with a fund, the better

- **Fund costs:** While comparing different schemes one should consider operating costs as marketing and selling expenses, audit fees, custodian fees, etc. Fund's expense ratio, which is reported in its annual report gives a fair idea about all the costs involved.

Additional fund Selection criteria

- **For Equity**
  - Fund size
  - Portfolio characteristics (cash position, portfolio concentration, Market Capitalization)
  - Beta, Gross Dividend yield
- **For Debt**
  - Relative yields
  - Average Maturity
  - Tax implication