BUSINESSSTANDARD

Create diversified investment portfolio

Money Matters

By Jagjit Singh Financial Advisor
Email: sjagjit2013@gmail.com

OUR day-to-day life can encounter some known as well as unknown risks, and thus we must have multiple options to tackle these risks. Just depending on a single solution will not work as risk is dynamic. I am sure you must have heard the famous dictum stating that "never put all your eggs in one basket".

Though often heard, its integral meaning is generally ignored by many investors while making their day-to-day investment decisions. Moreover, it is a universal truth that the needs of human beings are very varied, as they are never similar for two different individuals.

There are many socio-economic factors like – family background, age, education qualification, income level and profession etc, which play a key role in determining the corresponding needs for a person.

Thus, it is a fact of life that every single individual has diverse needs which ought to be fulfilled as the time comes. Therefore it goes without saying that any sole tailor-made investment solution cannot cater to all dynamic needs of a person and thus calls for constructing a portfolio of investments.

In layman's language, 'constructing a portfolio' means investing money into different instruments [varying on risk, returns and liquidity] depending on the profile of an investor.

For example, a young employed person can invest in a high risk/ high return instrument for a longer horizon, however as time passes the same person would require making certain other investments which in relative terms may derive lower returns, but at the same time may count higher on other parameters like safety and liquidity.

When a person reaches near to his/her retirement age, one would keenly look for investment solutions that can provide regular income during their post-retirement days. On the other hand, a young couple with little ones will opt for investment solutions that can take care of the education expenses of their children as and when such need would arise.

Likewise, once you get old one of the priorities is to foot medical bills and the same can easily be achieved if one had joined a medical insurance scheme when it was needed to do so.

As the person grows in life, his/her needs also change with time. This necessitates the adoption of certain need based tailor-made investment solution(s).

Through this way, slowly and steadily one would construct a portfolio of investments catering to the varied needs of an individual human being. Not constructing a portfolio [when it was needed most] can lead a person to fall into a high-risk zone, as we all know that the "future is quite unpredictable" for any of us.

Therefore, the need of the hour is to start constructing a portfolio of your investments which suits your day-to-day requirements of life. While it is always important to have some liquid cash in your bank account [to take care of any unforeseen need], it is equally important to invest the surplus money into an instrument with a long term perspective having the adequate potential to generate comparatively better returns.

Constructing a portfolio not only includes investments in financial products but can also consist of investments into precious metals/ stones like - Gold, Silver, Diamond and Tanzanite etc. Off late, investment into real estate is slowly emerging as one of the important constituents of one's portfolio.

Portfolio construction is an ongoing exercise. Sometimes it may involve exiting from one constituent of a portfolio and making an additional investment into another instrument or adding an altogether new constituent into the portfolio.

Though there is no ready-made portfolio mix for an individual, some important constituents of a portfolio can be outlined as follows: Savings with Banks [short as well as a long term], Equity Instruments, Investment into Unit Trust/ Mutual Fund Launched Schemes, Insurance Policies [life, accident, health], and Investment into Treasury Bills/ Bonds etc.

We all know that risk is an inherent factor while investing in any asset class, however, its impact can be minimised by skillfully diversifying one's portfolio. Any single instrument howsoever good it may be can dramatically change adversely with a change in market conditions.

And if you had placed all your eggs in one basket, there are chances that you may lose everything at a go. Therefore, the right mix of portfolios will always provide viable solutions to many upheavals of life and can ensure smooth sailing for an investor in this unpredictable world, which is full of uncertainties.