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A 5-point agenda to protect and grow your wealth in the long run

Synopsis
An ideal long-term portfolio involves a combination of multiple asset classes such as equity, debt, real estate, and gold, among others. Further, each asset class comprises a broad variety of sub-classes.

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By Ankur Maheshwari

What is important for building a sound long-term investments portfolio?

Let us start with two key ingredients of the recipe: **asset allocation** and adequate diversification. An ideal long-term portfolio involves a combination of multiple asset classes such as equity, debt, real estate, and gold, among others. Further, each **asset class** comprises a broad variety of sub-classes.

For example, within equities one can have variants such as domestic vs global equities, largecap vs midcap vs smallcap, growth vs value.

Step 1: A suitable asset allocation i.e. combination of these asset classes in a rational ratio, is the cornerstone of building a robust portfolio. It is unique to every investor, and accordingly, weightage for each asset class should be a function of your risk appetite, time horizon, liquidity needs and financial goals.

There are always periods of relative outperformance for any asset class. Given that asset classes are not perfectly correlated or in a few instances inversely correlated, investing in different asset classes helps investors benefit in the long run.

Step 2: The second important philosophy is around periodic review and re-balancing of portfolio, which is as critical as deciding the asset allocation strategy.

Regular portfolio reviews can help investors evaluate the performance of investments vis-à-vis the benchmark as well as expected returns. Regular portfolio reviews can also help one re-balance the portfolio, if required, to maintain the desired asset allocation, if the weightage of one asset class has increased or decreased due to **market movement**. For example booking profits when a particular asset class has rallied or adding to it in case of correction can always help maintain the right mix.

Step 3: The third tenet for building a sound portfolio is – discipline; working with a long-term approach.

When most people start building the portfolio with specific goals in mind, the intent is to build a healthy corpus for the long term. Unfortunately, however, like our New Year resolutions, we tend to execute it with limited discipline. Short-term priorities take over or any irrational market behaviour makes us think of near future and act accordingly. That is completely avoidable.

Just like a plant needs to be nurtured well to bear fruits, your investments need time to reap sweet fruits. An approach, which investors could consider is **systematic investment plan** (SIP), which is the most time-tested and evergreen way of investing. It provides perhaps the most disciplined way of investing in equity and debt markets alike.

Step 4: The next principle is around – timing the market. As humans, we are many a time tempted to time the peak and bottom of an asset class. History has proven time and again that it is impossible to do so. It is, therefore, recommended not to chase this mirage. For long-term investors, it is important to spend more time in the market rather than try to time entry or exit. From an investor's perspective, it's always helpful to focus on what an individual can control, like selecting the right product etc. Also, when you try to time the market, you get carried away by the hype in social media etc. It is important to cut the noise and focus on relevant information.

Step 5: The last doctrine for sensible investing is to – keep emotions away from investing. Investment decisions should be as much scientific and objective as much possible. However, as an investor, many a times we get swayed or influenced in decision making, which is bound to hurt the portfolio. A classic example here would be, if one has made an investment in a stock with the hypothesis that it's a value buy and it turns out to be a value trap instead, it's only prudent to cut the exposure and reallocate to better investment idea. It is not easy to book the losses for any investor, but if not done, it can continue to hurt the portfolio.

In conclusion, irrespective of the investment corpus, investors should follow the basic principles of investing to be able to do justice to their investment capital and long-term goals. It is also advisable that investors seek professional consultation while building their portfolios.

*(Ankur Maheshwari is CEO of **Equirus Wealth Management**. Views are his own)*