YOUR **MONEY**

Rebalance portfolio by directing SIPs towards underperforming assets

KARTHIK JEROME

Neha Kohli, 43, a resident of Sector 93, Noida, is on a sabbatical to pursue a master's degree in anthropology. She relies on systematic withdrawals from her investment corpus to support her education and living expenses. Although her portfolio has benefited from the bull run in equities, she frequently debates whether to book profits and shift heavily into fixed income after the steep run-up. She fears missing out on potential gains if the market continues to rise, but also worries about wealth erosion in case of a correction.

Diversify your portfolio

New investors who have picked funds based solely on past performance—primarily mid- and small-cap funds that have outperformed in recent times—should diversify their portfolios. Different asset classes perform well at different times. Even within equities, performance varies by market capitalisation and geography. Similarly, long- and short-duration debt funds outperform during different market phases. "It is impossible to predict which asset class will outperform at any given time. Rather than trying to time the market, focus on building a diversified portfolio. Constant portfolio churning to catch the next wave only increases costs through exit loads and taxes," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Sensible asset allocation

Go for a well-thought-out equity allocation. "Choose an equity allocation that will allow you to remain invested even if the market falls by 50-60 per cent," says Avinash Luthria, a Securities and Exchange Board of India (Sebi) registered investment advisor (RIA) and founder of Fiduciaries.

Allocate 10-15 per cent of your portfolio to gold and the remainder to fixed-income instruments. "Investors uncomfortable with volatility in fixed income should opt for shorter-duration debt funds," says Dhawan. Choose debt fund categories by matching the investment horizon with the fund's portfolio duration.

Luthria suggests arbitrage funds for those in higher tax brackets (in place of debt funds). "These funds' net asset values (NAVs) grow in a stable manner and they are taxed as equity funds. You can also defer taxes until you sell, unlike fixed deposits where interest is taxed annually," he says.

Rebalance regularly

If your target asset allocation is 60:30:10 (equities, debt, and gold), the rally could have pushed your equity allocation to, say, 65 per cent or higher.

"Set clear rules. Rebalance when your equity allocation shifts by, say, 5 percentage points or at fixed intervals, such as every six months or annually, or use a combination of both criteria," says Deepesh Raghaw, a Sebi RIA. Rebalancing during a bull market lowers portfolio risk. "With asset allocation, you won't have to worry about whether the market is expensive, or try to predict its future," adds Raghaw. Your sub-allocations within equities (for instance, 50 per cent large-cap, 25 per cent mid-cap, and 25 per cent small-cap) may also have been distorted. To rebalance, sell parts of your mid-cap and small-cap holdings (which have run up more) and shift money into large-cap funds, fixed income or gold (asset/sub-asset classes you are underweight on).

Selling equities can trigger taxes and exit loads. To avoid these, consider directing fresh systematic investment plans (SIPs) into underperforming asset classes like fixed income or gold (and pause SIPs into outperformers). "This method allows you to gradually return to your target allocation without incurring costs," says Luthria. Use this approach only if your goal is still distant (otherwise sell outperformers).

KEY INDICES TRADING HIGHER THAN LONG-TERM AVERAGE VALUATIONS

Average blended forward 12-month

	P/E RATIO			P/BV RATIO		
Index	**Current**	**5-Year**	**10-Year**	**Current**	**5-Year**	**10-Year**
Nifty 50	21.5	19.4	20.7	3.4	2.9	2.7
Nifty Midcap 150	33.6	25.6	18.8	5.0	3.2	3.0
Nifty Smallcap 250	23.7	17.9	18.1	3.5	2.4	2.2

P/E is price to earnings ratio and P/BV is price to book value

Compiled by BS Research Bureau

Source: Bloomberg

Timely car insurance renewal: Why is it crucial?

Car insurance provides financial backup in case of accidents, theft, and damage. Renewing it in time is important, and failure to do so can lead to penalty, loss of financial protection, and increased premiums.

Why is lapsed insurance not good?

In India, where the Motor Vehicles Act mandates that every vehicle must have at least third-party insurance coverage, timely renewal is crucial. Driving without valid insurance can lead to hefty fines, with penalties increasing for repeated offences.

Here's how timely renewal protects you:

- Coverage for damages: Comprehensive insurance covers a wide range of risks, including accidents, theft, fire, and natural disasters.
- Third-party liability: Third-party insurance covers damages or injuries to others involved in an accident caused by you. Without valid insurance, these costs would fall on you directly.
- No claim bonus: You get 'No Claim Bonus' on timely renewal, which is a discount on future premiums for claim-free policy periods. Letting your policy lapse can make you lose this valuable discount.
- Additionally, many insurers impose extra fees for renewing a lapsed policy. Avoiding these costs is another reason why timely renewal is critical.

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