



YOUR MONEY

SEBI 2025 INVESTMENT SURVEY

Diversify across assets, rebalance portfolio to manage risk effectively

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The Securities and Exchange Board of India's (Sebi's) 2025 investment survey highlights a clear trend — Indian households remain deeply risk-averse. The survey, which covered 90,000 households across 400 cities and 1,000 villages, found that nearly 80 per cent of families prioritised capital preservation over pursuing higher, riskier returns.

Why investors avoid risk

Indians have traditionally been cautious investors. "People emulate what they have seen their parents do," says Arnav Pandya, founder, Moneyeduschool.

Risk aversion is rooted in human psychology. "The pain experienced on losing a certain amount is three times the pleasure derived on gaining a similar amount," says Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors.

Income uncertainty contributes to conservatism. "The burden of paying EMIs on unse-

cured loans has made investors more cautious," says Dhawan. He adds that the flat performance of equities over the past year has reinforced such behaviour.

Risk aversion impacts wealth creation

A focus on capital preservation limits wealth creation. "Avoiding risky assets leads to lower portfolio return over the long term," says Deepesh Raghaw, a Sebi-registered investment adviser.

Young investors lose the benefit of compounding by avoiding equities. Inadequate exposure to equities leads to poor outcomes in long-term portfolios meant for goals like retirement and children's education.

Being overly conservative increases dependence on regular income sources, forcing people to work longer and harder. "Improving one's standard of living becomes difficult when portfolio returns do not outpace inflation," says Pandya. Fixed-income products are also less tax-efficient for those in higher brackets.

Risk appetite vs ability

- Risk appetite is the willingness to take risk
- Risk-taking ability depends on age, wealth, and goals
- People with more wealth have higher risk-taking ability
- They could, however, have a low risk appetite if they are conservative by nature
- Younger investors, with more time to recover from losses, and those with long-term goals, have higher risk-taking ability

Perils of excess risk taking

Some investors go to the opposite extreme, taking on excessive risk. "The desire to get rich quickly drives people towards instruments like futures and options (F&O) or cryptocurrencies," says Pandya. Losses from risky trades can deplete funds meant for situations like health emergencies or job loss.

Risks across asset classes

Debt is generally safer than equities but carries liquidity risk, as seen during the Franklin Templeton debt fund crisis of 2020. Long-duration bonds carry higher interest-rate risk: When rates rise, their prices fall more than those of shorter-duration bonds. Investors should match the duration of the debt instruments they choose with their risk horizon.

Debt instruments also carry reinvestment risk — the risk of investments maturing when interest rates are low, forcing investors to reinvest at lower levels. Investors should ladder

tackle this risk. Debt also carries credit risk. "Investing in high-quality corporate bonds or government bonds reduces this risk," says Raghaw. Debt carries inflation risk as well. "Returns may at times not keep up with rising prices," adds Pandya.

Equities are volatile. Investors who exit prematurely convert notional losses into real ones. Some segments of equities, like smallcap stocks, can also become illiquid in stressed market conditions. Real estate carries the risks of capital loss and illiquidity. Exiting this asset takes time, especially during economic downturns.

Managing risk effectively

Understanding one's comfort level with risk is crucial. "It takes time and the experience of a few market cycles to develop awareness about one's true risk appetite," says Raghaw. Pandya adds that how an investor reacts during volatile situations reflects their true risk tolerance.

Time horizon should determine how much risk one takes. Less risk should be taken for short-term goals, more for long-term ones. "Equities and real estate are ideal for the long term," says Dhawan. Diversification and asset allocation are effective for managing risk. Investors must align their asset mix — 60:40 or 70:30 equity-debt — with their risk appetite and investment horizon. Dhawan recommends using psychometric tools to measure risk appetite scientifically. Regular portfolio rebalancing is also critical. It involves trimming exposure to outperforming asset classes and adding to underperforming ones.