

WHAT ARE YOU IGNORING & YOUR PORTFOLIO REALLY NEEDS

Ms. DEVINA MEHRA,
Founder, Chairperson &
Managing Director of First Global



“Remember XYZ stock I told you about 3 months ago? It is up 80% since then”, “ABC ekdum solid hai. Just jump in”, “PQR kya lagta hai?” Sounds like a familiar party conversation...or something that you watch financial channels for?

If your end game is to have fun discussions at parties, this is fine. But if your purpose is to protect and multiply your wealth, or to optimize your portfolio, you are frankly approaching the problem from the wrong end!

Why? The answer takes you to Investing Basics 101. And it is to do with Asset Allocation.

Depending on the study you read (and there have been many, conducted over decades), you will find that fully 85% to 92% of the returns of a portfolio come from asset allocation!

You got that right!

Specific stock selection, which eats up most of your/ your advisor’s waking hours contributes only 10 to 15% of the returns.

Moral of the story: it does not make sense to concentrate your resources and time on security or stock selection.

Coming to asset allocation, since First Global started talking about it a couple of years ago, it has become a buzzword in discussions and even fund offerings, but with little understanding of what it really means.

When one goes somewhat deeper, one realizes that the Asset Allocation being talked about is in the nature of large-cap

versus small-cap Indian stocks or moving from value strategies to growth strategies in terms of stock choice within the Indian stock market.

This combined with some debt allocation appears to be the philosophy underlying the so-called asset allocation strategies.

But this isn't real asset allocation - not the one talked about in the studies cited above.

For that to really work in your favor, your consideration set must include all assets:

Developed Market Equities, Emerging Market Equities, Developed market Fixed Income, Gold and Precious metals, other Commodities, Real estate (REITs) across countries, and so on.

Just changing allocation across different categories of the Indian equity markets or even adding some tadka of fixed income is simply not good enough.

When we, at First Global, talk of asset allocation it means that in your consideration set are, practically, all the investable Asset classes in the world.

The other key is to have a

dynamic and tactical asset allocation model.

This means that the allocation is not fixed - assets are to be reallocated based on the tactical view of various asset classes at various points in time.

Indian investors have a notoriously high home country bias, with almost all their investments only in India but this is a very risky proposition and does not make sense as even in equities, India is only about 3% of the world's market capitalization.

Global diversification was not really possible for Indian residents in the past, but now the Liberalized Remittance Scheme (LRS) of the RBI allows an investment of up to 250,000 US Dollars (about Rs. 2 crores) per person per year which is a generous allowance, making true Global diversification possible.

In general, investors should look at diversifying outside home markets as only home market exposure exposes you to SCCARs (Single Country Single Currency Single Asset Risk) which can deal a huge blow at times.

25 years ago, in 1997-98, every South East Asian Market from Taiwan to Thailand to South Korea to Indonesia fell between 50 to 90% in US Dollar terms in a single year! And prior to this crisis, these countries were considered Asian tigers with great growth rates.

More recently we have seen similar carnage in Russia and to an extent even in the UK.

And economic growth is no guarantee of stock market performance. The Chinese market trades at half the levels it reached in 2007, even as the GDP has grown 6.5 times in the interim.

Hence, having a disproportionate allocation to your home market of India is an absolutely sub-optimal strategy.

How to make global investments?

Here are some of the ways to make global investments.

First are **Mutual fund offerings of Indian houses** where all or part of the investments are made in global ETFs, funds, or stocks: these are domestic instruments.

However, these have a few constraints including an overall limit by the RBI on how much can be invested by the entire mutual fund industry globally.

The Other drawback is that it adds another layer of costs & charges by the domestic fund house for no additional benefit, whereas you still continue to pay what the overseas EPF or fund house charges.

Also, there is no accountability as the domestic AMC is just a pass-through entity.

The Other constraint which is not a built-in one but simply a result of the way things are done is that most Indian offerings are oriented towards only one or two geographies, usually the US and sometimes the China region. They are not truly Global in nature.

That's why there were a number of Nasdaq offerings in 2021 when the Nasdaq was booming which have since lost substantial money for the investors.

Under the LRS scheme, the **Indian investor can also directly buy both stocks and mutual funds / ETFs** abroad with some constraints like no leverage or derivative

positions.

Given the hours of those markets plus the complexity of the companies (well known to us because we have been following these companies for over 2 decades), this a completely impractical option plus this leads people to think that just buying a few stocks in the US is global diversification, which it is not.

As detailed above, an ideal investment portfolio should be across geographies and across asset classes. Normally this is available only to very wealthy investors, investing over a million dollars each.

However First Global offers a geographically diversified multi-asset portfolio starting at USD 10,000 which is approximately INR 8 lakh, simply as a service to offer this to smaller investors in India. It also has a similar strategy in a fund format which starts at 100,000 dollars. These instruments invest in developed markets & emerging market equities, commodities, fixed income of all kinds, Real Estate Investment, Trusts, etc.

We have been following

Global Markets and global companies since 1999 when we became the first Asian members of the London stock exchange and then we have been following not just US stocks but Chinese, Japanese, European UK stocks as well. It takes a long time to build up the expertise to understand and invest in these markets.

Besides these, First Global also has structured products for really large investors, offering different risk-reward profiles.

About the author

Devina Mehra, is the Founder, Chairperson, and Managing Director of First Global, an Indian and Global Human + Quantitative Fund Manager.

She has been quoted widely on Global as well as Indian markets by global financial media like Wall Street Journal, Barron's, Business Week, Fortune, Forbes, CNBC, Financial Times, etc. She was ranked in the 50 Most Powerful Indian Women in Business by Fortune India.

She tweets @devinamehra and the website is firstglobalsec.com