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PERSONALFINANCE

A combination of equity, mutual schemes and commodity funds will help investors tide over volatile conditions. **Srikumar Bondyopadhyay** tells how

Mixed bag

The current investment climate has ruffled many investors who were so long content with their financial planning. Stock prices are plummeting. The high rate of inflation has made real returns from fixed income assets, such as bank deposits, negative. Investments in debt securities are also running into losses in the face of rising interest rates.

In such a situation, the conventional strategy of diversifying into equities and debts/bonds no longer holds the promise of yielding the desired return.

One needs to do a slight rejig of one's investment portfolio, involving a combination of equity, mutual funds and commodity funds, to tide over the adverse conditions.

Commodity funds

Investors must include commodities as a separate asset class to hedge their investment portfolio.

The best way for retail investors to invest in commodities is through an exchange-traded fund (ETF) that closely tracks the price of a particular commodity.

Investment in the equities of companies that produce the commodities is also another option. However, with the global meltdown on the bourses, companies won't be able to do much to reverse the slide in their share prices.

The success of gold ETFs is a case in point. For instance, an investment of Rs 100 in a gold ETF would have fetched a little more than Rs 110 now.

In comparison, an investment of Rs 100 in the 30-share BSE sensex would have declined to Rs 85. In a diversified equity fund, the investment value would have been eroded by Rs 20.26.

Debt schemes of mutual funds have not fared well either. Mutual fund debt plans gave a return between 4.44 per cent and a negative 4.75 per cent, depending on the structure of the scheme.

The open-ended dynamic asset allocation schemes lost between 7.42 per cent and 13.74 per cent in the past six months.

This is because the prices of bullion and other commodities, such as crude oil and metals, have risen sharply in the last two years, while the US sub-prime woe spurred a global credit crisis leading to a steep correction in equity prices across countries.

New options

Apart from gold ETFs, one will soon be able to invest in funds tracking the global crude and silver prices.

Benchmark Mutual Fund has filed offer documents with market regulator Sebi for Oil Benchmark Exchange Traded Scheme (Oil BeES) and Silver Exchange Traded Schemes (Silver BeES).

These are open-ended funds that will be traded on the domestic stock exchanges in the same way as equities. The funds aim to provide almost the same returns as that provided by crude oil and silver in global markets. Each ETF will invest in units of overseas mutual funds and ETFs dealing with crude oil.

	1-year return (in %)
BSE Sensex	-6.44
Diversified equity schemes of MFs	-11.19
Hybrid asset allocation schemes	-3.18
Speciality debt funds	8.44
Gold ETF	39.74
Silver ETF*	47.9
Oil ETF*	110.2

*Returns are in the global markets

Over the past 12 months, crude oil and silver ETFs have posted handsome gains over their gold peers.

While oil ETFs gave more than 100 per cent returns, silver ETFs recorded a 47.9 per cent return compared with 39.74 per cent for gold ETFs.

However, a small investor may find it difficult to cope up with dynamic asset allocation in keeping with the fluctuations in the market.

Minimise losses

Systematic investment plans (SIP) are a great way to minimise losses. But SIPs are restricted to diversified or hybrid (balanced) equity mutual funds. Systematic investments in equities or exchange-traded funds will have to be done on one's own. In this case, one will have to take the risk of selecting the stocks. It will not be difficult to select a gold ETF as all of them give nearly the same return.

Kotak Securities, the stock broking arm of the Kotak group, has included gold ETFs in its Auto Invest scheme launched in 2006.

The new plan, called Auto Invest Gold, enables a retail investor to invest a fixed sum every month, as in the case of an SIP, and the money can be invested in equities, mutual funds and gold ETFs.

The minimum SIP amount should not be less than Rs 5,000 a month.

However, on the flip side, the monthly SIP amount will be invested in shares of those companies that are recommended by the equity research team of Kotak Securities. The gold ETF will also be that of Kotak Mutual Fund.

Auto Invest has seven plans with different combinations of equity and gold investments. The levels of each asset class — equity, mutual funds and gold — in different plans are predetermined and an investor cannot change it.

However, depending on the suggestion of the research team and market conditions, the allocation may be altered and an investor is allowed to switch from one plan to the other.

At the time of redemption, Kotak Securities will give a 2 per cent discount if one sells the gold ETF units and purchase physical gold from Kotak Bank.

With the availability of other commodity ETFs, many brokerages and investment management companies will now be able to offer similar combo plans.

This will help small investors who cannot carry forward investment losses for long. They will find such plans more suitable to tide over adverse market situations.