PGIM India Mutual Fund

Mind the Gap

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Dear Investors and Partners,

Each individual and household is unique and so are their needs and situation in life. Hence when it comes to financial planning, their requirements are also unique. However, when one seeks to draw up an elaborate action plan for the same, one is faced with lot of advice which can be termed as Thumb Rules. These are general principles and guidelines which though true are not tailored for individual unique requirement but are rather a one size fit all approach. Even when searches the internet about it, the articles, self-help and DIY solutions can take one only so far and not beyond it. Thus the best way to deal with this is to appoint a trusted advisor who can understand the pain points better and recommend solutions accordingly. The critical changes that need to be implemented on a regular basis, as one's situation in life evolves can also be taken care of by the trusted advisor. This is simply because she will be equipped with far more data and insights into one's life needs, and thus can plan accordingly.

That said, the first crucial step is to actually cultivate strong financial habits, which I have spoken about in my earlier letters as well. The strong contribution of the behavioral aspect of investing is often ignored, however, over the long term, it can be the edge that can enable him/her to compete with even seasoned professionals. This is intuitively hard for people to understand, but is based on the magic of compounding. A small gain compounded over a really long period of time can become a bigger pile compared to a big gain which is sustained only for a short period of time. As one can guess, staying the course over a really long period of time is a matter of right mentality and hand-holding by an advisor in difficult times rather than any technical aspect.

The next logical step in this journey is to actually select the instruments for investment. The idea is to build a customized plan with equal focus on both expected returns as well as risk tolerance. Broadly, there are seven major asset classes which can help one to decide their asset allocation strategy and optimally diversify the investment portfolio. These are Equity, Debt, Gold, Commodities, Currency, Real Estate and Alternates. Although some experts may not consider currency to be a standalone asset class, for India investors, investing in global funds with dollar denominated underlying assets, makes a lot of sense. In addition, there may be new and emerging asset classes and investors can keep an open mind about them and decide their suitability as well. For e.g. Cryptocurrencies as an asset, which is a recent example of an alternate asset class, that also includes assets like paintings, wine or other similar assets that may not have long years of data or transparency. While it may be tempting to invest in any one asset class which is trending and outperforming, over a full market cycle, diversifying is the easiest and most consistent way to achieve investment objectives.

The last thing to sort out is the priority that one should give to each investing activity. The sequence of household budgeting, protection, saving & investment, tax planning, wealth transfer is an important sequence to keep in mind. It is linear and one should not go to the next step without fulfilling the previous one.

Investors who are starting out on their financial, wealth creation journey often get this order wrong, and their focus tends to be on products and perhaps strategies which promise to maximize returns in the shorter term. Even though the short-term strategy may play out as per their expectations, it eventually does not do much in terms of overall wealth creation for most of us. This is where the process oriented approach gains an upper hand if one has to consistently build wealth over many decades.

Stay safe & happy investing.

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