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Here are easy New Year resolutions that will boost your investment portfolio

Devina Mehra | 15 January 2025

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SUMMARY

Assess your asset allocation and net worth, diversify your holdings, set up stop-loss limits to manage equity risk—and start now. Your future self will be thankful.

New Year season is over, and by now, you may have already fallen behind on some of your resolutions.

I'm going to offer some simple ones, which you can get done while your enthusiasm is high and the New Year is young—resolutions that don't require you to grit your teeth and exercise will power for 365 days.

Most can be finished this weekend, but would give a lifetime boost to your portfolio. First of all, let us look at asset allocation. Now, it sounds like a fancy phrase, but it's actually quite simple. It's the categorization of where your investments presently are.

For example, equity. That includes directly held shares, equity mutual funds, portfolio management service (PMS) schemes, and others.

Then there is fixed income, where you have fixed deposits, fixed-income mutual funds of various kinds, and bonds. Of course, not all of them have the same risk profile.

Next is real estate—land, house, apartment, etc. Plus commercial real estate, if you have any.

In addition, there are other categories like gold and other precious metals, or even cryptocurrency or other alternate assets like art.

Look at what you own and any loans that you have outstanding, let us say against your house or car. Basically, take a good look at what you own versus the loans you have.

The net of the two amounts is your net worth. It is positive if the former is higher. Once you have that starting point, then you can decide whether your present allocation is the way you want it to be, according to your goals, or should it be different.

Pro tip: You should not be at either extreme end of the risk spectrum. Do not lurch from fixed deposits to derivatives or cryptocurrency trading.

That's the number one resolution—asset allocation. Knowing where you are and where you want to be.

The next important one is risk management. There are, of course, many components to this, but here are a couple of simple ones that you can implement right away. One is to have a 'stop loss' on every position.

This has to be a trailing stop-loss—not from your purchase price, but from the recent high of that stock. For example, if you buy a share at ₹50 and you have a 25% stop-loss, it's not as if your stop-loss gets locked at ₹37.5.

If from ₹50, suppose the stock goes up to ₹200 and then comes back to ₹150, you sell out at that point. Please have a stop-loss on every position in your portfolio and every new stock you buy.

Also look at sectoral allocation, because sometimes people say they have "25 stocks," but when you look at their portfolio, they might have, say, eight banks in it. Or if they like a particular industry, they might have five or seven stocks from it. Remember, most stocks in an industry move together.

Therefore, if you have 15, 20 or 25 stocks but they are just in three industries, that's almost like holding three stocks. There are many components to risk management, but at least put in place these two things.

The third resolution is to focus on global diversification, something Indians do too little of.

When I started working, one dollar used to change hands at ₹12. Today, it's ₹86-plus. That's a more than 85% depreciation in the value of the rupee in the course of less than a career.

Hence, when you are planning for your retirement or any goals that are 10, 20 or 30 years away, you cannot forget about this. And because this is a cause for me, we at First Global have a great product that invests across the globe that starts at ₹8.5 lakh. But that's a topic for another day.

The fourth resolution is—start investing. Very often, people think they will gather all the information or do this, that and the other before investing. They wait for that one grand day to optimize their investments. But that day keeps getting postponed. All of you would have seen data on the difference starting early to save for retirement makes. Let us say if you start saving and investing at 25, or at 30 or 40 for retirement at 55 or 60. The earlier you start, the less you need to save every month and the requirement gets vastly higher as you delay. So, start!

Even if it's not a perfect plan, start. And even if you can't save a lot, start anyway. Suppose you say that you can't save 20% of your salary as you don't earn enough for that, start with whatever you can save, even if it is 5%.

But then, resolve that out of your next year's increment, you will invest 70%. At least of your incremental income, invest a larger proportion. Otherwise, it will all get eaten up by lifestyle upgradation.

These are simple resolutions.

First, find out your asset allocation and where it should be, depending on your goals. Second, do risk management, at least to the extent of stop-losses on all positions and making sure you do not have excess exposure to individual sectors.

Number three, start on global diversification. And four, just do it: start investing today.

Those should be your New Year resolutions. They may sound a little boring compared to the excitement of getting a formula for multi-baggers, but your future self will thank you for implementing these.

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