



Putting together a portfolio of investments is like building a home. Even if a house is filled with beautiful rooms that may not be enough: All those rooms need to work together to form a pleasing and useful whole. Investment portfolios work the same way.

Here we show you how to design a successful portfolio of investments that work together to help you reach your goals.

1) Have a blueprint.

Just as building a home begins with a blueprint, you need a pattern for your portfolio. The blueprint tells the builder to build a structure of a particular size and shape, with specific features, to suit the needs of its future owners. Similarly, your portfolio should suit your needs and specifications.

The best starting point is to think about why you're investing in the first place. Maybe you're investing for retirement, for your

child's education or marriage, or for the down payment of a home. Get specific. How much money will you need for each goal? How much time do you have?

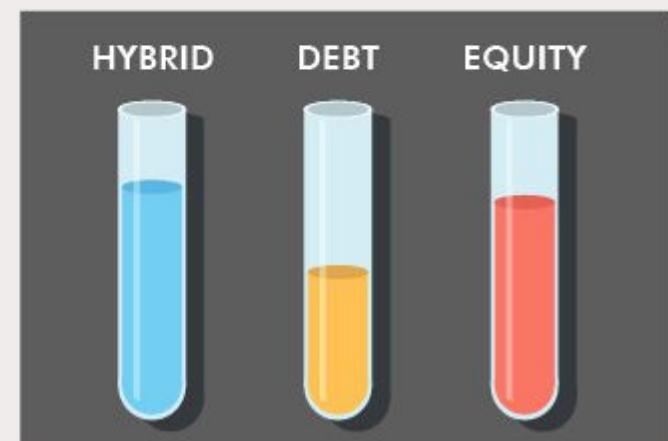


Whatever your goal, it gives you vital information. When you figure out how long you'll be investing (your time horizon), you can come to terms with how much of your investment can be put at risk. The closer your goal, the less you can afford to lose, so the focus should be more on preserving what you've made rather than on generating additional gains. The more time on your side, the more should be the tilt towards equity.

2) Decide on an asset allocation.

The heavy lifting of any financial plan starts well before individual investment selection. In other words, sensible portfolio construction must commence with asset allocation. Some financial experts believe that determining your asset allocation is the most important decision that you'll make with respect to your investments - that it is even more important than the individual investments you buy.

So how do you decide how much should find its way into hybrid, debt, and equity.



One rule of thumb is to use your age as a guide. For instance, if you're 33 years old, put 33% of your portfolio into debt funds and bonds and the rest into equity funds. But like all thumb rules, it has its limitations. Some investors might find that figure conservative. Others might find that it's too aggressive for their particular goal.

For instance, a 23-year old girl who has just got her first job may be saving Rs 2,000 every month for her retirement. In that case, the entire amount can be invested in a diversified equity fund. However, another 23-year old may be focused only on the down payment for a home within the span of two years. In that case, the money should go into a fixed deposit or a short-term debt fund.

So go back to the blueprint to make a decision. The more time on your side, the greater the potential exposure to equity.

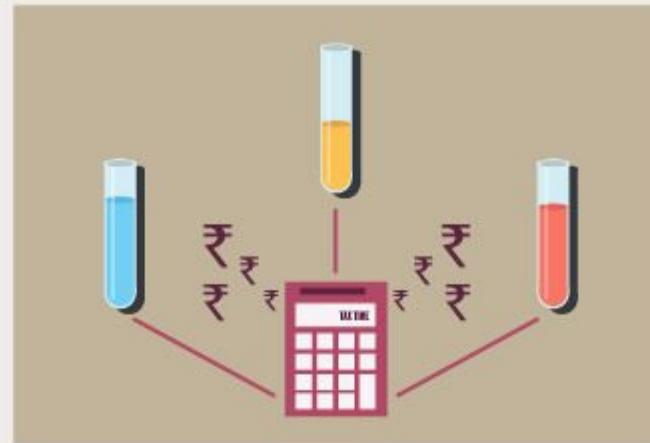
3) Discover what you already own.

Maybe you can name all of your mutual fund investments off the top of your head and detail how each one performed last week. Good for you. But can you explain how they work together? Which are your core mutual fund investments? Are you diversified? Do you have a lot of overlap? You must be able to answer those questions before you can see how (or even if) your portfolio fits your pattern.

To figure out exactly what you own, you could note down all your mutual fund investments on a spreadsheet and calculate how much you have in various assets.

Use Morningstar's Instant X-Ray to help you discover your portfolio's asset mix, style-box breakdown, sector weightings, and so on and so forth.

Source: Morningstar



4) Bring it all together.

Now that you know what you have, it's time to find out whether your current mutual fund portfolio fits your blueprint.

Begin by checking your mutual fund portfolio's asset allocation. If that doesn't match the mutual fund asset allocation you laid out in your blueprint, shift assets among funds and stocks to tailor the mix.

You could also weed out redundant investments. If you have three large-cap growth funds, for example, they probably aren't all equally good. But before you sell, ensure that you have held the units for at least a year to avoid short-term capital gains tax.

Most importantly, ensure that your portfolio includes core holdings, those investments on which you're relying on most



to help you meet your goals. Core investments should be the biggest part of your portfolio and should provide a foundation to build up upon.



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