Happy Friendship Day to your investment portfolio

It is said that your friends are like the family that you choose. They support you during the hard times and encourage you to do your best. When you are falling, they will catch you and when you are rising, they will prop you up. Your investment portfolio is just like your friends. Let's see how.

Friendships that stand the test of time: We all have that one childhood friend who knows all our secrets and who has shared most of our memories. The person with whom you have had lots of fights, yet never given up. The person who has been there to wipe your tears and rejoice in your achievements. It takes time to create such a strong bond with a person. You invest your time, energy, and emotions in the friendship. However, the good thing is that when you do this, you make long-term friends. A friendship that has stood the test of time and is resilient. Have you ever thought about how this is similar to investing? You create an investment portfolio to achieve your myriad financial goals. These could range from paying for your child's vacation to buying a house and planning for your retirement. The main of your investment portfolio is to support you and ensure that enough money is available for you to achieve your financial goals. However, in order to build a robust portfolio that can be with you through the ups and downs of the market, you need to be patient and think from a long-term point of view. Just like you wouldn't leave your best friend every time you had a fight, similarly you shouldn't exit your investments every time the prices fall or the market gets uncertain. For example, assume that you started a Systematic Investment Plan (SIP) in an equity scheme of your choice. Now, when markets start falling, you start getting anxious and feel that it might be better to stop your equity SIP. However, this would be the wrong decision. You should continue with your SIP so that you can reap the benefit of rupee-cost averaging which helps you lower the cost of buying your equity investments, over the long-term. The bottom line is that you stick by your SIP investment just like you stuck by your best friend.

Your vibe attracts your tribe: As you go through life, you meet and interact with hundreds of people. From your school and college days to your time at the office, you come across different types of people. However, most people come and go. Few of them stay and fewer still, remain your friends. This is because most of us make friends with like-minded people. We form strong friendships with individuals whom we have something in common with and whom we can relate. You can hardly hope to form strong friendships with people you don't get along with. Just like you can't make friends with everyone, you also cannot invest in just any instrument. You are a unique individual who has a specific willingness and ability to absorb risk. Your return requirement and investment time period is also unique. Thus, you must create an investment portfolio that is well-aligned with your return requirements, risk profile, and investment time period. For example, assume that you have a goal that you need to achieve in the next two years. Since the time period is less than two years, you should ideally invest in low to medium risk securities. In this case, investing in high-risk instruments like equities will not make sense as they are not aligned with your risk and time horizon. When you align your portfolio with your requirements, it becomes easier for you to maintain the portfolio during market ups and downs and potentially achieve your financial goals.

Har ek friend zaroori hota hai: Diversification is always good, whether it is in your friend circle or your investment portfolio. Just like every friend brings something unique to your life and needs to be treated differently, every investment also adds something unique to your portfolio. For example, we all have that impulsive friend who reacts to every situation and is easily angered by the smallest arguments. However, this is the friend who will always push you to move forward and grow when you are afraid. We have to be patient with this friend and ensure that we do not react every time the friend gets over excited about a situation. Such friends are like investing in equity mutual funds. They require patience, you should not react to the up and down in prices, and stay invested for the long-term. If you do, then your portfolio can potentially grow over the long-term. On the other hand, you also need that reliable friend who will support you during the tough times. This is akin to investing in debt mutual funds. They are relatively low risk and can help you navigate the downswings in equity markets. Every portfolio needs some exposure to debt mutual funds. Then there are the all-weather friends who are there in good times and bad. They support you when you are down and nudge you towards success. Balanced Advantage Funds are the all-weather friends in your portfolio. They are a mix of equity and debt investments. When equity markets are doing well, they increase exposure to equities and when equity markets fall, they shift to debt. This way, they take care of you in good markets and bad.

Now you know why your investment portfolio is one of your best friends and should be treated accordingly. So, this Friendship Day, don't forget to thank your other best friend i.e., your investment portfolio.