

How to build a resilient portfolio to achieve sustainable growth

By Dimplekumar Shah, ET CONTRIBUTORS • Last Updated: Sep 22, 2024, 10:21:00 AM IST

Synopsis

Given the turbulence periodically cropping up in global and domestic markets, it becomes critical for retail investors to start constructing a **resilient portfolio**. Thorough research and a strategic approach to diversification are essential for navigating such volatility and achieving sustainable growth in their portfolios.



"A calm sea doesn't make a skilled sailor " This age-old wisdom holds true in Investing, where skills of an investor are often tested by the lashings of market volatility and other unpredictable and uncertain macroeconomic developments at a global scale.

Given the turbulence periodically cropping up in global and domestic markets, it becomes critical for retail investors to start constructing a **resilient portfolio**. Thorough research and a strategic approach to diversification are essential for navigating such volatility and achieving sustainable growth in their portfolios.

Take, for example, the COVID-19 pandemic, which created unprecedented market disruptions, shaking global markets and exposing vulnerabilities in many portfolios. During this crisis, sectors like travel and hospitality were hit hard, while technology and pharmaceuticals thrived. Investors who had diversified their portfolios, with a mix of stable fundamentally sound stocks and growth-oriented tech investments, fared better. For instance, companies like **Infosys** and **Sun Pharma** not only weathered the storm but also capitalized on the increased **demand** for digital solutions and healthcare products.

In a more recent global event, the war in Ukraine led to significant volatility in global markets, impacting commodity prices and supply chains. Indian investors with portfolios diversified across various asset classes, including Equities, Bonds, and Gold, were better positioned to mitigate the adverse effects of these geopolitical tensions. Investments in sectors such as Defence and Energy, coupled with safer assets like Government securities, provided a buffer against market uncertainties.

Case study 1 (Identifying opportunities): During Russia-Ukraine war, global LNG and gross refining margins surged sharply to \$71/mmbtu (versus average of \$27/bbl prior to the start of the war) and \$30/bbl (versus average of \$6.6/bbl prior to the start of the war) respectively given concerns of supply bans on Russia. During this, period, the company's engaged into oil refining business delivered phenomenal returns (MRPL/Chennai Petroleum/RIL stock price delivered 3x/3.4x/22% return in less than four months). However, on the other hand consumer of LNG like CGD companies were severely given concerns on their margins and the same is reflected in steep 30% fall in the stock price of **Gujarat Gas** during the initial period of Russia-Ukraine war.

The importance of thorough research and strategic asset allocation is becoming more and more apparent. By analysing market trends and understanding the potential impacts of global events, investors should build portfolios that are resilient to shocks and can be poised for long-term growth. Regular portfolio review and adjustments, based on evolving economic conditions and global developments, help in maintaining a balanced risk-reward profile and achieving sustainable wealth accumulation.

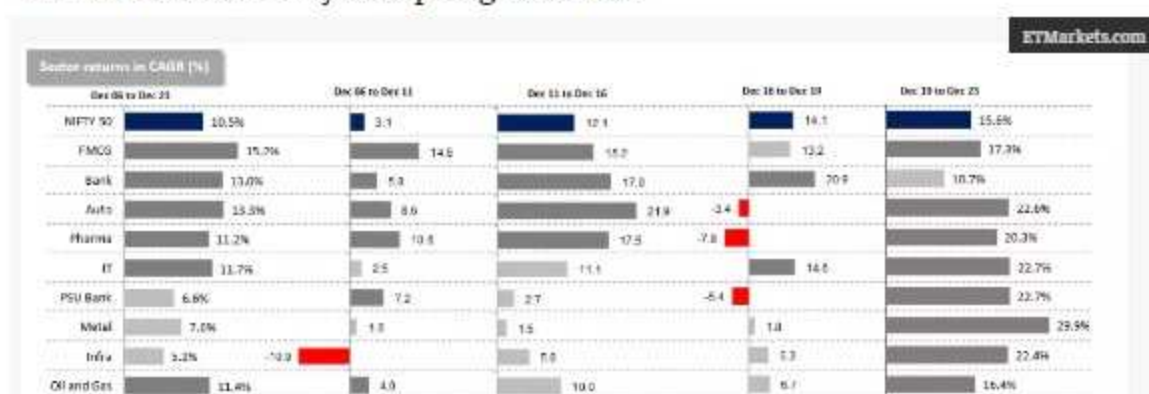
Case study 2 (Picking the right sector): Analysis of key sectoral indices, clearly indicates importance of sector rotation as few sectors would outperform broader markets given certain period of time and few may under-perform depending upon sector tailwinds. We highlight here that automobile sector outperformed broader markets with returns of 22% during Dec-2011 to Dec-2016 versus 12% returns for Nifty-50 during the same period. However, over during Dec-16 to Dec-19, auto sector underperformed with negative return of 3.4% (versus Nifty-50 return of 14%). On other hand, IT/Banks were outperformers with returns of 14.6%/21% during Dec-2016 to Dec-19. Thus, investors who had invested in Auto space during Dec-2016 to Dec-19 would have under-performed versus Nifty-50. This, clearly indicates importance of sector rotation in investing to generate Alpha returns and emphasises on regular portfolio review and adjustments.

To navigate such complexity, a suitable financial advisor can be a game-changer. A skilled advisor can provide personalized guidance based on comprehensive market research and individual financial goals. For instance, during periods of high inflation or economic uncertainty, an advisor can recommend adjustments in asset allocation or suggest investments in inflation-protected securities. As the digital economy in India is in a growth phase, investors can restructure portfolios by including stocks of Fintech and e-commerce companies with stock fundamentals. The broad-based impact of Make In India initiative on sectors like infrastructure, railways, defence and banking, etc. will offer more portfolio diversification opportunities to the investors. Based on the risk tolerance, investors can also weigh options to include home grown Midcap stocks in their portfolio. Urbanisation and consumption are also emerging as dominant themes in portfolio diversification. Fed rate movements and the impact on the economy need to be regularly monitored to make wise portfolio diversification decisions. As inflation is within the target levels, investors across the globe are eagerly waiting for the outcome of the September policy meeting of the Federal Open Market Committee (FOMC).

A good advisor also helps in regular portfolio reviews and rebalancing, ensuring that investments remain aligned with evolving market conditions and personal objectives. They bring expertise in navigating regulatory changes and complex financial products, making it easier for investors to make informed decisions.

To sum up while individual research and strategic diversification are crucial, partnering with a knowledgeable financial advisor only amplifies these efforts, providing an added layer of expertise and personalized strategy to build a resilient, growth-oriented portfolio.

Sector rotation – key to Alpha generation



Source: NSE; JMFS Research

(The article is authored by Dimplekumar Shah, MD & Co-Head of Investment Advisory & Distribution, JM Financial Services Ltd.)