

Investors turn to wealth managers for best bets

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MUMBAI: A growing number of investors are turning to wealth managers to decide where to invest their money to generate a decent inflation-adjusted return.



Assuming that an investor has put Rs 1,000 in the stock market for 10 years, yielding an average annual return of 15%, his investment would have multiplied to Rs 4,045 at the end of 10 years. However, taking into account a nominal inflation rate of 10%, the real rate of return would only be an average of 5%. Thus, after adjusting for inflation, the absolute value of his investments at the end of 10 years will only be Rs 1,628.

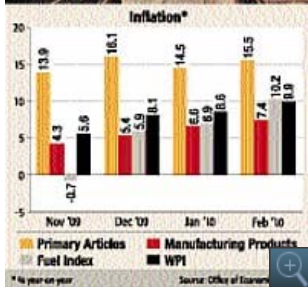
So far, a lot of clients were not sensitised to comparing inflation rates and investment returns and tend to largely focus on nominal returns. However, as the high inflation rate continues to make headlines, investors are becoming more worried over how to generate inflation-adjusted returns from their investments, says Hrishikesh Parandekar, CEO, Karvy Private Wealth.

While equities and gold figure at the top of the list, many wealth managers are telling investors to allocate a part of their funds into long-term private equity (PE) and real estate assets. Over the past one year, the prices of essential commodities have more than doubled along with the escalating cost of services and education. This has forced many whose income have not kept pace with the increase in prices to dip into their savings to meet major expenses.

Says Sanjay Kumar Maheshka, MD & CEO and member, group corporate strategy, Prabhudas Lilladher Fund Advisors, The returns are not linked to inflation strictly, but also to other things such as global factors. Returns during financial year 2009 have been bad, the returns in general in the past five years have been far in excess of inflation adjustment.

Most of the advisors assume a nominal annual inflation rate of 5-6% for working out a long-term plan of their clients' finances. The wholesale price index (WPI) in India was at a 16-month high at 9.89% in February.

Mr Maheshka says that he expects inflation to fall in the next six months. We still recommend equities and balanced funds as major asset classes for the investor with a medium-to-long-term perspective. In the short term, a correction in the equity market cannot be ruled out. Mr Parandekar reckons that the best way to beat inflation will be to take an exposure to equities which, in the Indian scenario, is fundamentally driven by macro-economic growth.



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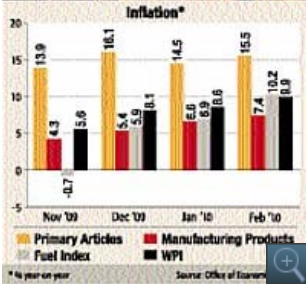
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In theory, an increase in inflation should result in higher corporate revenues and increasing profits. While this may be limited to short-term stock market movements, there is no data to prove that it helps in the long term. Experts say that financial markets are far more complex than this and the best strategy would be to ensure optimal allocation among different assets.

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For investors, it is important to look at the real rate of return (after inflation) and not just focus on nominal rates of return. An inflation hedge is an asset that erodes less when prices are on the ascent.

For an Indian investor, a superior investment choice to protect one's investment from a hyperinflationary environment is, investing in hard assets such as gold, said **Maneesh Kumar**, MD, Burgeon Wealth Advisors.

Wealth managers say that debt is one asset class that an investor should invest in during times of hyperinflation. A fixed income product will continue to give the same coupon payment irrespective of the inflation rate.

Taking inflation and taxes, money in a savings account yields negative returns for the depositors. From April 1, we are likely to see interest calculated on a daily balance. However, that will not be of much help considering that the savings account rate is 3.5% and that WPI is touching 10%, Mr Kumar said.

According to wealth managers, the ones who are worried the most are pensioners who depend on fixed income and have to stretch their budget due to high inflation. The only protection they can hope to get presently is from tax-free investment alternatives.