PGIM India Mutual Fund

Financial Chakravyuhas and the importance of exit strategies

Ajit Menon
CEO

July 2023

Dear Investors and Partners,

In this letter, I want to touch upon the topic of exit strategies and the timely rebalancing of the portfolio as one approaches the financial goal. This can be done through a thought-through glide path asset allocation, investing in something like a target date fund or Balanced Advantage Fund in India to mitigate behavioral errors of staying invested in an expensive market. An investor, if confident, can do this on her own by allocating assets dynamically.

But, first let us understand why it is so important to look at an exit strategy and portfolio rebalancing in the context of financial planning for a particular goal. If not done correctly, this one misstep has the potential to derail a well-laid financial plan. I have a personal experience (given that I use a financial advisor) on one related aspect of re-balancing. This was with regard to my daughter's education and fees to be paid for her admission to an undergraduate program abroad. The goal year was 2020 and payout date was around July – August. As we all know, the pandemic played havoc with the markets in 2020 and raised anxiety levels for all. In my case, given that the goal year was 2020 around July-August, my advisor had moved the investments earmarked for my daughter's education to fixed income one year in advance i.e. July- August 2019. I was therefore able to pay the fees and had no anxiety with regards the money commitment for the first-year semesters.

Of course, my advisor had planned this in advance but this strategy helped me during the crisis period of Covid which nobody could have predicted. Portfolio rebalancing is important, to protect the corpus that has been meticulously built over the years. However, the method followed for this may differ. One may do this in a phased manner or can rebalance before a financial goal's due date, like in my case, one year before the money was required. This will also depend upon the nature of the financial goal. For example, for longer-term goals like retirement, this can be done by following a very popular strategy, known as the portfolio bucketing strategy. This simply means dividing the accumulated retirement into different buckets ranging from cash and equivalent bucket to equity buckets, and use only safer bucket for withdrawals initially and let the other buckets compound.

Overall, this is an important aspect regarding financial goals and helps avoid a shock closer to when you need the money. If I take the liberty of using mythology to explain this further, I will perhaps use the well-known story of Abhimanyu and the Chakravyuha. The mighty warrior from the epic Mahabharata knew how to enter the war formation, but sadly didn't know how to exit.

In the financial Chakravyuha, which can be the volatile markets, in my opinion, it is important to set up exit strategies right at the very beginning when one is setting up the financial plan for a particular goal. Preferably, a Saarathi in the form of a skilled financial advisor can make the journey easier and smoother.

Thank you for your continued trust and confidence in our investment management services. If you have any questions or concerns, please do not hesitate to reach out to the PGIM India team or our distributor partners.

Stay safe & happy investing.