

A study on adopting multi-dimensional investment strategies for generating wealth

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Abstract:

With the growing importance of managing personal finances, arises a need for the better understanding of the different concepts of investment. This paper aims to create an understanding on the concepts of investment, asset classes along with the different asset classes available for investment. It also explores the strategies that can be adopted to create a balanced and multi-dimensional approach to investment along with its purpose and limitations. It aims to create an understanding of the importance of creating a well – diversified portfolio considering the risk appetite of an individual. By adopting this approach, it is expected that an individual will be able to create a corpus of wealth which can eventually help him to discharge his financial responsibilities and meet his financial goals.

Keywords:

Investment, Diversification, Risk Appetite, Multi- Dimensional Investment Strategy, Asset classes

Introduction:

Every individual who has started earning puts aside a part of his income as savings, and when those savings are put into different investment avenues with the aim to earn higher returns is termed as investment. Investment refers to putting money into different avenues like stocks, deposits, assets, etc to generate future return in the form of interest, capital appreciation so that wealth can be created and financial goals can be met.

Multi-dimensional investment strategy means to allocate your resources into different asset classes and spread out your portfolio to include different investment vehicles like stocks, real estate, fixed deposits, etc. The basic purpose is to diversify the risk of loss and create a strategic plan with the intention to maximise the returns and achieve the financial goals in both good and bad times.

It becomes inevitable to manage the personal finances and investments throughout the earning phase of an individual to ensure a considerable generation of wealth in the forms of assets, investments, savings so that various financial goals could be achieved.

Different Asset Classes:

A group of assets that has similar attributes and are likely to give the similar returns as compared to one another in the stock market. There is usually little or no correlation, sometimes negative correlation among different asset classes. Thus, diversification focuses on putting money into different asset classes to maximise the returns while balancing the risk.

Usually asset classes include equities, fixed income, cash and cash equivalents, real estate, commodities, and currencies.

1. **Equities:** It simply means owning the stocks of the company which can be traded via major stock exchanges of the country. Equity shares can give returns in two forms: dividend (payout from the profit of the company) and capital appreciation (Earning through increase in the value of an shares over a given period of time)
2. **Fixed Income:** It refers to the investment avenues which promises to give a certain fixed return on the investment over a period of time either at the redemption or maturity or spread across the period of the investment along with the safety of principal. It usually includes bonds, deposits (bank fixed deposit or corporate deposits), debentures, etc
3. **Cash or Cash equivalents:** It refers to parking the money into savings account or putting it into investments that can be liquidated into cash easily and in a short period of time.
4. **Commodities:** Commodities are usually of two types: Hard commodities which are extracted from the deeper surfaces of the earth like gold, silver, crude oil and soft commodities which are usually the agricultural products like cotton and sugar.
5. **Real Estate:** It usually involves getting the ownership of the property or investing into it through REITs (Real Estate Investment Trusts). Ownership can help in yielding rental income along with appreciation in the land or property prices, but it involves a huge amount of investment in one go, whereas REITs can be smaller investments with fractional ownership. REITs can be traded on stock exchanges.
6. **Forex:** Forex is the buying and selling of currencies of different countries with the aim of earning from the fluctuations in the exchange rates. It involves exchange of one currency for another.

Risk Appetite:

It refers to the level of risk an individual is willing to take for the purpose of earning returns on investment. It is important to assess the risk tolerance capacity of an individual and create a

personalised investment plan considering the various personal financial obligations that are to be met by him.

Usually, it can be classified into three types:

1. Aggressive: It implies high to very high risk taking capacity of an individual by showing willingness to accept higher market volatility for higher returns.
2. Moderate: It refers to create a balance between risk and reward thus using a mix of highly volatile investments to fixed return investments.
3. Conservative: It prefers to safeguard the invested amount by compromising the returns earned on it, thus showing a conservative approach to risk taking capacity.

Strategies for adopting Multi-Dimensional Investment strategy:

1. Diversify among different asset classes:

One major method is to diversify the amount of investment into different asset classes like equity (stocks), debt (fixed income instruments), commodities (gold, silver, copper), real estate, cash or cash equivalents, forex, futures and other derivatives.

2. Diversify among different sectors:

It involves allocating the resources into different business sectors like infrastructure, technology, banking, health care, FMCG, automobiles, consumer durables, real estate and construction, telecom, media & entertainment, logistics, etc, it will require investors to analyse performance of different sectors and decide the allocation in the selected sectors.

3. Diversify among geographical areas:

It involves investing in different countries spreading capital into different geographical areas. In modern times, investor gets an opportunity to make investment across boundaries through exchange traded funds, mutual funds, direct stock purchases, etc.

Eg: Nippon India ETF Hang Seng BeEs, Nippon India Japan Equity Fund

4. Diversify across different investment styles:

Investment styles can be broadly classified as following:

- a. Growth: Looking for companies who are expected to perform exceptionally and estimated to achieve higher returns/ profit in the coming years. A strong study of fundamental analysis of the company can help to pick the right stocks.

- b. Value: Looking for companies, whose shares are trading at a value less than their intrinsic value, this is done to buy cheaper and making the profit by buying at the discounted value.
- c. GARP (Growth at Reasonable Price): It is a combination of growth and value style. It involves picking the stocks through strong fundamental analysis which are expected to grow their sales/ returns but at the reasonable price.
- d. Momentum Investing: Picking the stocks on the basis of the trend, buy the stock if the price of the stock is rising upward, and sell when the prices seem to fall.
- e. Quality Investing: It involves picking the stocks that are built to last, usually the companies with favourable debt equity ratio, strong balance sheets, attractive dividends, balanced and stable profits year after year.

5. Diversify across different investment horizon:

It involves diversifying and allocating the entire amount of investment on the basis of the horizon of investment usually into short term, medium term, long term. Short term refers to usually for a period of 12 months or less. Medium term for a period of 1 to 3 years and long term for a period of more than 3 years. Usually, a specific percentage can be allocated to each horizon.

Purpose of Adopting a Multi-Dimensional Approach:

1. Mitigating Risk: The multi-dimensional approach to investment can help in minimising the overall risk by spreading the amount into different asset classes, different sectors.
2. Stabilising returns: The approach to diversify can help to balance out the losses from one investment with the profit from another investment thus stabilising the returns and protecting from the extreme situations of financial loss.
3. Balancing risk with return: Usually it is recommended to assess the risk appetite of the investor and weigh it with the goals to be achieved with the investment, one can create a balanced portfolio to create a balance between the risk involved and the returns to be generated.
4. Preventing over-reliance: A well-diversified portfolio usually does not put its entire weight of yielding returns to a specific asset class or a specific economy, thus ensuring

a well segregated investment approach which avoids over dependence on the performance of a particular asset or investment avenue.

Limitations:

Since adopting the multi-dimensional approach can bring a lot of positive aspects in gaining higher returns and eventually creating wealth, it is undeniable that it poses certain challenges like requiring expertise services of financial experts or it can get too much time consuming or overwhelming for new investors.

It can also lead to average returns when specific assets are performing exceptionally well thus averaging the overall returns.

Conclusion:

An appropriate and diversified portfolio constructed with due diligence, considering the personal financial goals along with the risk tolerance capacity of an individual can help an individual to be financially free and create a substantial amount of wealth over a period of time. After gaining thorough knowledge of the financial concepts and the strategies to be applied, an individual shall craft a well-diversified portfolio to avoid the risk of washing away the hard-earned money in the volatile situations, aiming to create a balance between risk and returns.

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